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Welfare-Poverty Measure

Poverty measurement

June 25, 1998

DRAFT MEMORANDUM FOR EOP PRINCIPALS MEETING

FROM: ???

SUBJECT: BENCHMARKING THE NRC-BASED INCOME AND POVERTY MEASURES

As discussed at the last EOP Principals meeting, in early 1999 the Census Bureau will publish an analysis of alternative measures of poverty based on the proposals contained in the 1995 National Research Council (NRC) report, *Measuring Poverty: A New Approach.* Because OMB is the statutory arbiter of the "official" poverty measurement methodology, the Census Bureau has asked for advice on the proposed alternative measures to be highlighted (among many that will be published as part of the analysis). Currently, the Census Bureau plans to benchmark all of its highlighted poverty estimates to a recent (likely 1997) poverty rate. (Note, however, that non-benchmarked estimates will appear in the analysis portion of the report.)

The purpose of this meeting is to decide whether we want to advise Census to highlight a few series that are not benchmarked, to advise that only benchmarked estimates be highlighted, or simply to remain silent on the issue (which will likely result in only benchmarked estimates being highlighted). This decision does not settle the issue of whether we should not benchmark the official poverty measure, but it would make selecting a non-benchmarked alternative more difficult.

In order to develop fully the issues involved, this memo has two parts. The first part explains the concept and presents the pros and cons of benchmarking. Much of this information was contained in the background memo for the last Principals meeting, however we include it here for ease of access. The second part outlines the potential implications of advising the Census Bureau to highlight some series that are not benchmarked.

Part I: Background on Benchmarking

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. The NRC panel recommends basing the threshold on expenditures on "necessities" (food, shelter, and clothing) plus a little more. However, the NRC panel cautioned that setting the level below which a family is considered poor is more of an art than a science. The panel therefore suggested a range of alternatives and left it to policymakers to determine the most appropriate levels. 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.

Because there is some discretion in the setting of the poverty threshold, Table 1 shows poverty rates between 1991 and 1996 using the current methodology (column 1) and using three alternative ways to determine the threshold for the NRC experimental measure -- one benchmarked and two not benchmarked:

- The "Benchmarked" measure is the NRC measure benchmarked to the 1996 poverty rate; in this case the thresholds are "backed out" by first setting the new aggregate poverty rate to the current rate and then setting the thresholds at the level that achieves this rate given the new resource definitions. In this case, the threshold falls to approximately the 25th percentile in the distribution of expenditures.
- The "NRC Experimental (midpoint)" (column 3) is based on selecting approximately the 32.5 percentile in the distribution of annual expenditures and then multiplying this expenditure by approximately 1.2 -- the midpoints of the NRC recommendations;
- The "NRC Experimental (lower bound)" (column 4) is based on selecting the 30th percentile in the distribution of annual expenditures and then multiplying this expenditure by 1.15 -- the lower bound of the NRC recommendations;

Both the NRC Experimental "midpoint" and "lower bound" estimates would not match the current overall poverty rate and thus would be considered "not benchmarked."

It is important to understand that benchmarking only assures that the aggregate poverty rate is identical for the official and the alternative measure in the benchmarked year. However, the distribution of poverty among subgroups will change whether or not the estimates are benchmarked (see Table 2). In general, working families and families with large out-of-pocket medical expenses would more likely be measured as poor, and nonworking families with substantial in-kind benefits would less likely be measured as poor with the NRC experimental series. This would have geographic as well as subgroup poverty rate implications. For example, even though the relative proportion of poor who are Black declines under both alternatives (not shown in Table 2), the estimated Black poverty rate falls with benchmarking but rises or stays constant with a non-benchmarked measure. Similarly, both historical and future trends would differ. For instance, the benchmarked measure would be identical to the current rate in 1996 but higher in 1991. (The faster fall using the alternative measure is largely due to the expansion in the EITC.)

Pros and Cons of Benchmarking and Not Benchmarking

Pros of benchmarking:

- May provide an easier transition to the new official measure of poverty because there will not be a change in the overall level of poverty. (Critics, of course, will still charge that this level is arbitrary.) In addition, with a benchmarked measure it may be easier to implement changes in the poverty guidelines issued by HHS for program purposes.

- Focuses the arguments on the relative distribution of who is poor rather than on how many people are poor; experts would say that the results on the distribution of who is poor are more objective and scientific than those on the total number of 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. This may cost us the political cover of following a nonpartisan expert panel, and may raise questions of motive.

- Will highlight the distributional consequences of moving to an NRC-based alternative more clearly than under the non-benchmarked alternatives (although they have the same distributional consequences); for instance the poverty rate for some groups would fall in absolute terms with benchmarking.

- There is a perceived illogic in using an overall poverty rate from a method we say is flawed to determine a key part of a methodology we say is better.

Pros of not benchmarking:

- Incorporates the recommendations of the NRC panel, based on their professional judgement from the best available evidence (though, as noted, this judgement is subjective), and therefore provides some limited political cover.

Cons of not benchmarking:

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

Part II: Key Decision for this Meeting

There are basically three options: (1) Advise the Census Bureau to highlight some non-benchmarked estimates along with benchmarked estimates; (2) Actively advise the Census Bureau to highlight only benchmarked estimates; (3) Remain silent on the issue (with the likely result that Census will only highlight benchmarked estimates).

Pros of advising the Census Bureau to highlight some non-benchmarked estimates

- Keeps the option of non-benchmarked estimates in the public dialog, which may preserve the option of not benchmarking when <u>and if</u> we decide to move to a new official measure of poverty.

- Narrowing the range of options in any dimension may be perceived as moving us closer to a final decision, and might limit our flexibility.

- The Census report may appear more credible if it includes a non-benchmarked alternative, given that the NRC's recommendation did not involve benchmarking.

- If we decide to change to an NRC-based measure as the official measure of poverty and if we decide to benchmark the official measure, it may make the change look small compared to selecting the non-benchmarked alternative. It gives us an ability to look "reasonable" by adopting a less extreme change.

Cons of advising the Census Bureau to highlight some non-benchmarked estimates

- Even if we're not certain that we want to change the official measure of poverty, we may be held accountable for estimates that poverty is really higher than the current rate.

- Even if the non-benchmarked estimates are simply among those highlighted, people could focus on them and create an "uproar." Alternatively, some of our traditional allies may like the non-benchmarked estimates and feel abandoned should we ultimately choose to benchmark.

Pros of advising the Census Bureau to highlight only benchmarked estimates

- It may raise less of a political "uproar." This would be particularly valuable if we believe we are likely to benchmark any new official measure anyway.

Cons of advising the Census Bureau to highlight only benchmarked estimates

- It may make it more difficult not to benchmark in the future.

- If Census does not closely follow the NRC recommendation, it may appear that they had been inappropriately influenced by political considerations, particularly since non-benchmarked estimates are already in the public domain.

Pros of remaining silent on the issue of benchmarking

- Given that, at this point, Census plans to only highlight benchmarked estimates this contains all of the advantages of advising Census to only present benchmarked estimates outlined above.

- In addition, it may give us political cover by allowing another, independent statistical, agency to make the judgement about how the level of poverty should be determined.

Cons of remaining silent on the issue of benchmarking

- Likely (because Census currently plans to only highlight benchmarked estimates) contains all of the cons of advising Census to present only benchmarked estimates.

- We may not want Census to make the decision that non-benchmarked estimates will not be highlighted without our input.

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

	Official measure	Benchmarked to 1996	NRC Experimental (midpoint)	NRC Experimental (lower bound)
Poverty Rates				
1991	14.2	14.5	18.9	16.7
1992	14.8	15.3	19.6	17.4
1993	15.1	15.7	20.2	18.0
1994	14.6	14.7	19.0	16.8
1995	13.8	13.8	18.2	16.0
1996	13.7	13.7	18.0	15.8
Thresholds for 2 adults and 2 children (in dollars)				
1991	13,812	11,891	13,891	12,883
1992	14,228	12,249	14,309	13,270
1993	14,654	12,616	14,738	13,668
1994	15,029	12,938	15,115	14,018
1995	15,455	13,305	15,543	14,415
1996	15,911	13,698	16,002	14,840

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

	Official measure	Benchmarked to 1996	NRC Experimental (midpoint)	NRC Experimental (lower bound)
All persons	**13.7**	**13.7**	**18.0**	**15.8**
Children	20.5	18.1	23.8	20.9
Nonelderly adults	11.4	11.5	15.0	13.2
Elderly	10.8	15.6	20.4	18.0
White	11.2	11.8	15.6	13.7
Black	28.4	25.2	32.0	28.5
Hispanic origin	29.4	28.5	37.7	33.1
One or more workers	9.5	10.0	13.6	11.8
Persons in family of type:				
Married couple	6.9	7.8	11.1	9.5
Female householder	35.8	32.3	40.4	36.3
Geographic regions:				
Northeast	12.7	14.3	18.8	16.5
Midwest	10.7	10.3	13.8	12.1
South	15.1	14.2	18.3	16.2
West	15.4	16.1	21.0	18.5
Metropolitan/Central City	19.6	19.2	24.7	21.8
Not Central City	9.4	10.6	14.1	12.4
Nonmetropolitan	15.9	13.5	17.5	15.5

Poverty measurement

June 18, 1998

TO: Poverty Measurement Working Group

FROM: Rebecca Blank

Because I thought there were still some misunderstandings in our meeting last Tuesday, I want to provide a little background information and make a suggestion about how OMB should proceed as it puts together some simulations of program effects.

Let me start with two comments that I believe might need clarifying:

(1) The primary way in which changes in the poverty measurement will affect program spending is through changes in the Guidelines, the simplified poverty thresholds published by HHS. In fact, most programs (and ALL the big programs) that are tied in any way to poverty measurement are tied to the Guidelines. Since the Guidelines are NOT the same as the poverty thresholds used by Census to calculate the actual poverty rate, but are tabulated by HHS and include a variety of changes to those thresholds, *it is impossible to simulate the program effects of a change in poverty measurement without making some assumptions about what sort of Guidelines HHS would issue under an alternative measure of poverty.*

(2) There is no consistency across programs in how family income and eligibility is calculated. In fact, it's quite amazing how very inconsistent even quite similar programs are. Programs have dealt with the fact that they care about different income levels and concepts in part by using different multiples of the poverty guidelines as part of their eligibility determination -- some programs use 100%, some use 135%, some use 185%, etc. This means that conceptually it really doesn't matter what the guidelines are because programs can always use whatever multiple they find most convenient. Of course, in the real world, programs have specifically enacted legislation that commits them to (say) setting the upper level of eligibility at households whose countable income for that specific program is below 135% of the Guidelines. These specific program rules are hard to change in the short run.

However, most programs use a measure of family income that is much closer to "cash income" than to the "full income" measure proposed by the NRC for an improved measure of poverty.

(3) Programs are currently designed to use the existing Guidelines which assume family income is defined as cash income. This suggests that at least one simulation we want to do is the following "What are the program effects of a change in the poverty measure, if we translate the alternative poverty thresholds (based on full income) into poverty thresholds that are closer to the cash income concept utilized by the programs and use this "cash equivalent threshold" to establish the Guidelines?" This essentially means recalculating the alternative thresholds to "back out" the concepts not included in cash income. Specifically, one would take the alternative thresholds (designed to be compared to "full income") and add back in average child care and work expenses, MOOP, and taxes and subtract off average in-kind benefits. This gives you the cash-equivalent threshold implied by the alternative threshold.

Now comes a key point that I felt wasn't understood in Tuesday's meeting: *One of the Pros of utilizing a benchmarked poverty rate is that the cash equivalent value of the alternative thresholds under benchmarking must of necessity be very close to the current Guidelines.* This is because of the way benchmarking works -- the thresholds are the residual calculation once you use a specific definition of family income and set an aggregate poverty rate. Essentially, the thresholds under benchmarking are the poverty line that, given a definition of "full income", results in the current poverty rate. If I were to ask "what is the cash equivalent to those thresholds that provides the same poverty rate?" this must result in an answer very closer to the current Guidelines since the current poverty line *is* a cash income threshold that results in the current poverty rate. There's no funny business here. It must be true mathematically that, if we say "We want the cash equivalent threshold implied by the alternative thresholds being used in our new measure of poverty" and if those thresholds are coming from a benchmarked alternative measure, then the cash equivalent thresholds will be very close to current poverty lines.

This suggests there are probably four program simulations that OMB wants to focus on:

1. Take the thresholds that result from a benchmarked alternative poverty measure and assume they are blindly turned into Guidelines and calculate the program effects absent any other program changes.

2. Take the thresholds that result from a benchmarked alternative poverty measure and assume they are translated into their cash equivalent values and these cash equivalent values are used to set the Guidelines (i.e., we try to produce Guidelines that reflect current program needs.)

3. Take the thresholds that result from a non-benchmarked alternative poverty measure (i.e., the 18% poverty rate calculated as the NRC alternative, or something close to it) and assume they are blindly turned into Guidelines and calculate the program effects absent any other program changes.

4. Take the thresholds that result from a non-benchmarked alternative poverty measure and assume they are translated into their cash equivalent values and these cash equivalent values are used to set the Guidelines (i.e., we try to produce Guidelines that reflect current program needs.)

Final note: *Both procedures 2 and 3 are going to result in new Guidelines very close to the current Guidelines and hence lead to quite small program changes, even in the absence of any change in program rules or regulations.* (This is true for procedure 3 only because -- quite by accident -- the "full-income' thresholds that result from the alternative NRC poverty calculation are very close to the current poverty line.) I think procedure 2 is much more defensible than procedure 3, but leaving arguments over the merit aside this does suggest that there are quite feasible calculations that are very conceptually defensible and that will result in only small program changes and may require no adjustments to the program rules. Without prejudging at all what our future recommendations might be, this is an important piece of information.

(All of this ignores changes in the composition of the poor that will result in changes in the distribution of benefits across groups regardless of how the Guidelines are defined -- This is obviously also a very important issue, but separable from the Guidelines issue discussed above.)

Poverty measurement

FYI: This is the current outline for the Census Bureau report on alternative poverty measures. It's now scheduled for March 1999.

Becky Blank

July 21, 1998

DRAFT PLAN FOR
EXPERIMENTAL
POVERTY MEASUREMENT REPORT

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March 99

Report on Poverty Measurement
Outline

I. Summary

II. Introduction
- A. Background of National Academy of Sciences Report
- B. Plan of this report

III. Marginal effects on poverty rates using CEX for thresholds and CPS for resources: 1997
- A. Experimental thresholds with official resources
  1. Equivalence scales
  2. Geographic adjustments
- B. Experimental resources with official thresholds
  1. Food stamps and school lunch
  2. Housing subsidy valuation
  3. Energy assistance
  4. Work expenses including child care
  5. Taxes
  6. Medical care
- C. Resources and thresholds redefined
  1. Owner-occupied housing
  2. Unit of analysis
- D. Updating thresholds over time

IV. "Combination" measures
- A. For each "combination" measure
  1. Poverty measures by subgroup 1997
  2. Time series estimates 1990-1997

V. Data issues
- A. SIPP
- B. CEX
- C. Decennial census and American Community Survey
- D. Other surveys

VI. Summary/Future Research

VII. Technical Appendix

TABLE SHELL PLANS

Section III. Marginal Effects:

Each sub-section within section III of the report outline will include a table presenting poverty rates for all persons under the official measure and under each individual variation measure. The variations in III.A. on the thresholds will be compared to official money income to compare the effect on poverty rates, and the variation in III.B. on the resource side will be compared to the official thresholds. The variations presented in section III.C. require adjustments to both thresholds and resources.

Each set of estimates will represent one variation on the official measure. The following page presents the planned tables listing the measures that will be examined. Sub-sections may include additional tables needed to elucidate particular issues, however, most detail will be included in the technical appendices.

Section III. Tables Planned
A. Thresholds

Table A1. Number Poor and Poverty Rates: 1997

	Poor	
	Number	Percent
Official Measure		
Equivalence Scales		
*Using (adults + p * children)^f*		
f=0.65 p=0.70		
f=0.75 p=0.70		
f=0.70 p=0.70		
f=0.50 p=1.00		
f=0.65 p=0.85		
f=0.66 p=1.00		
Betson Scale		
Canadian Scale		
Geographic Adjustment		
NAS Geographic Adjustment		

B. Resources

Table B1. Number Poor and Poverty Rates: 1997

	Poor	
	Number	Percent
Official Measure		
Foodstamps and School Lunch		
With foodstamps		
With school lunch		
Housing Subsidies		
Valuation methods:		
1985 AHS		
1997 AHS		
Model I		
Model II		
FMRs		
Energy Assistance		
With energyassistance		
Work related expenses including child care		
Child care expense only - NAS model		
Childcare expense only - medians		
Other work-related expenses only		
All expenses - child care NAS model		
All expenses - child care medians		
Taxes		
Social Security Taxes		
Federal Income Tax		
+ EIC		
State Income Tax		
All taxes		
Medical Care		
Deducting MOOP		
Adding fungible value of Medicaid		
Adding fungible value of Medicare		

C. Both Thresholds and Resources

Table C1. Number Poor and Poverty Rates: 1997

	Poor	
	Number	Percent
Official Measure		
Owner occupied housing		
Thresholds by housing tenure		
Unit of analysis		
Cohabiting couples		
Housemate/Roomate		
Household		

TABLE SHELL PLANS

Section IV. Combination Measures:

There are several tables planned here. There will be three (or four) combination measures selected, which combine many of the dimensions examined in section III in different ways, for illustration. We begin with a general table showing poverty rates for combination measures for several summary subgroups. Another table shows the distribution of the poverty population relative to the total population under the different measures. Next is a table with more detail, finer age groups, education status, and other selected characteristics. The final set of tables will display time-series estimates of all combination measures.

Section IV. Combination Measures

Table 1. Poverty Rates: 1997

	Official Measure	Experimental Measures Exp1	Exp2	Exp3
All persons				
Children				
Nonelderly adults				
Elderly				
White				
Black				
Other				
Hispanic origin				
No workers				
One or more workers				
In family of type:				
Married couple				
Male Householder				
Female Householder				
Geographic regions:				
Northeast				
Midwest				
South				
West				
Metropolitan Area				
Central city				
Not central city				
Nonmetropolitan Area				

Table 2. Distribution of the Population: 1997

	Total Population	Poverty Population			
		Official Measure	Experimental Measures Exp1	Exp2	Exp3
All					
Children					
Nonelderly adults					
Elderly					
White					
Black					
Other					
Hispanic origin/2					
No workers					
One or more workers					
In family of type:					
Married couple					
Male householder					
Female Householder					
Geographic regions:					
Northeast					
Midwest					
South					
West					
Metropolitan Area					
Central city					
Not central city					
Nonmetropolitan Area					

Section IV. Combination Measures

Table 3: Poverty Rates by Detailed Characteristics: 1997

	Official Measure	Experimental Measures		
		EXP1	EXP2	EXP3
All persons				
Age groups				
Less than 3 years				
3 to 6				
6 to 12				
12 to 18				
18 to 22				
22 to 45				
45 to55				
55 to 60				
60 to 65				
65 to 75				
75+				
Race/origin				
White not Hispanic				
White Hispanic				
Black not Hispanic				
Black Hispanic				
Other not Hispanic				
Other Hispanic				
Family size				
One person				
2				
3				
4				
5				
6				
7				
8				
9				
10+				
Marital status				
Married spouse present				
Married spouse absent				
Widowed				
Divorced				
Never married				
Gender				
Male				
Female				
Education				
No high school diploma				
High school diploma				
Some college				
College degree				
Foreign born				
Native				
Naturalized citizen				
Not a citizen				

Section IV Time Series

Table 4: Poverty Rates: 1990 to 1997

Official poverty measure

	1990	1991	1992	1993	1994	1995	1996	1997
All persons								
Children								
Nonelderly adults								
Elderly								
White								
Black								
Other								
Hispanic origin								
No workers								
One or more workers								
In family of type:								
Married couple								
Male Householder								
Female Householder								
Geographic regions:								
Northeast								
Midwest								
South								
West								
Metropolitan Area								
Central city								
Not central city								
Nonmetropolitan Area								

Experimental measures - controlled to 1997 rate for all persons

	1990	1991	1992	1993	1994	1995	1996	1997
All persons								
Children								
Nonelderly adults								
Elderly								
White								
Black								
Other								
Hispanic origin								
No workers								
One or more workers								
In family of type:								
Married couple								
Male Householder								
Female Householder								
Geographic regions:								
Northeast								
Midwest								
South								
West								
Metropolitan Area								
Central city								
Not central city								
Nonmetropolitan Area								

7/21/98

Poverty measurement

TO: Elena Kagan, Bruce Reed, Cynthia Rice
CC: Jeanne Lambrew
FROM: Andrea Kane

Poverty Measure - information from 7/20 meeting (per email).

Program	1998 outlays (millions)	BEA category	Poverty thresholds a factor in allocations to states or other grantees?	Is this by statute?	Poverty guidelines a factor in eligibility of families and individuals?	Is this by statute?	Income deductions and adjustments	Is this by statute?	Sensitivity to change in poverty measures
Medicaid	101,260	mandatory	No. Spending depends on the number of eligible applicants.	not applicable	A subset of recipients, mainly children, are eligible based on family income under 133 percent of poverty (pregnant women, infants and children under 6), or 100 percent of poverty (other children)	yes	States apply income rules consistent with their cash welfare programs for families with children, or with SSI. However, states may apply more liberal deductions to cover pregnant women and children.	yes	Because full benefit is available up to the income ceiling, changes to poverty guidelines could have significant cost and participation impacts.
Food Stamp Program	22,416	mandatory	No. Spending depends on the number of eligible applicants.	not applicable	Family gross income must be below 130 percent of poverty and net income (after deductions) must be below 100 percent of poverty.	yes	The following are subtracted from gross regular money income: a) a standard deduction ($134 in 1998); b) 20 percent of gross earnings; c) dependent care expenses up to $200/month per child under age 2, $175/momth for other children; c) for households with	yes	Additional analysis is needed to size impacts.
Child nutrition programs, including the National School Lunch Program, school breakfasts, summer food service program for children, and child and adult care feeding.	8,796	mandatory	No. Spending depends on the number of eligible applicants.	not applicable	Children with family incomes below 130 percent of the guidelines receive free meals. Those with incomes between 130 percent and 185 percent receive meals at a reduced price.	yes	no	not applicable	Very sensitive: a change in the poverty guidelines that decreased the number of children considered poor would decrease the number of children currently eligible for free meals. A change that increased the number of children considered poor would have t
Title I of the Elementary and Secondary Education Act	7,229	discretionary	Allocation to States based on county-level counts of children aged 5-17 who are: 1) in poor families, based on the most recent decennial census; 2) families receiving TANF or SSI; 3) in certain institutions for neglected and delinquent foster children.	yes	no	not applicable	not applicable	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Community Development Block Grant	4,989	discretionary	CDBG allocations to States and entitlement communities are determined by the use of two formulas. Formula A weights share of poor at 50 percent, population at 25 percent, and overcrowded housing at 25 percent. Formula B weights the percentage of housing units built before 1940 at 50 percent, poverty at 30 percent, and population growth lag at 20 percent.	yes	no	not applicable	not applicable	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation.
Rural development programs, including direct and guaranteed loans for: single and multifamily housing, community facilities, water and wastewater treatment facilities, and rural businesses as well as supporting grants for all loan types and rental assista	Obligations, direct loans, and loan guarantees of 7,706 in 1998	discretionary	A state's share of the poor rural population is a factor in allocation of funds.	yes	no	not applicable	not applicable	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation.

Program	1998 outlays (millions)	BEA category	Poverty thresholds a factor in allocations to states or other grantees?	Is this by statute?	Poverty guidelines a factor in eligibility of families and individuals?	Is this by statute?	Income deductions and adjustments	Is this by statute?	Sensitivity to change in poverty measures
Head Start	4,128	discretionary	Each state's share of poor children up to age 5 is a factor in determining distribution of about two-thirds of funds.	yes	At least 90 percent of children in a local program must be from poor families, or families receiving cash welfare, or foster care.	yes	no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
WIC (Special Supplemental Nutrition Program for Women, Infants, and Children)	3,949	discretionary	Part of funding based on each state's share of pregnant and lactating women, infants, and children up to age 5 with family incomes below 185 percent of poverty.	yes	States may set eligibility levels up to 185 percent of the poverty income guidelines.	yes	no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Job Training Partnership Act	1,870	discretionary	State shares of the poverty population are used to distribute one-third of funds under title II-A Adult, II-C youth, and II-B Summer Jobs programs.	yes	At least 90 percent of participants must be "economically disadvantaged." One criterion is family income below the poverty guidelines.	yes	Unemployment compensation, child support payments, and welfare payments are excluded from countable income.	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Child Health Insurance Program block grants	Enacted in 1997. Outlays for 1999, 1,665m	mandatory	Allocation factors include uninsured children from families with incomes below 200 percent of poverty.	yes	Beneficiaries must have family income below 200 percent of poverty guidelines.	yes	States may allow deductions from gross income.	yes	Annual state allocations are based on state shares of uninsured children with family incomes under 200 percent of poverty in three years of pooled CPS data. Changes to the thresholds would change the shares, and changes to the guidelines would change eligible population.
HOME (Home Investment Partnership Program)	1,438	discretionary	The formula for determining allocations uses six factors. Four of the six factors take poverty criteria into consideration: 10 percent by vacancy-adjusted rental units where the household head is at or near the poverty level; 20 percent by rental units b	yes	no	not applicable	not applicable	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation.
LIHEAP (Low Income Home Energy Assistance Program)	1,022	discretionary	Allocations based on share of eligibles. One criterion of low-income is family income below 150 percent of poverty. However, unless appropriation again rises above 1984 level of 1,975m, funds are distributed based on state shares of funds in 1981.	yes	Households must have low income. Criteria include 150 percent of the poverty guidelines and 60 percent of state median income. In most states, the latter criterion is higher.	yes	no	not applicable	Funding subject to appropriation. Unless funding nearly doubles, a change in distribution of poor would not change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pres
Child Care and Development Block Grant	978	discretionary	Poverty guidelines have and indirect effect on state allocations. One factor in allocation formula is the percentage of child receiving free or reduced price school lunches.	yes	No	not applicable	not applicable	not applicable	Funding subject to appropriation. Overall impact on allocations is mediated through changes to school lunch participation.

Program	1998 outlays (millions)	BEA category	Poverty thresholds a factor in allocations to states or other grantees?	Is this by statute?	Poverty guidelines a factor in eligibility of families and individuals?	Is this by statute?	Income deductions and adjustments	Is this by statute?	Sensitivity to change in poverty measures
Maternal and Child Health Services block grant	683	discretionary	A state's share of low income children is a factor in allocation.	yes	Grants are to provide access to health care to low income mothers and children.	yes	no	not applicable	Same as LIHEAP
Consolidated Health Centers, formerly Community Health Centers, Migrant Health Centers, health centers for the homeless, and health centers for residents of public housing	815	discretionary	Poor population is a factor in determining that an area is "medically underserved."	no	Free care is available to families with income below poverty.	no	no	not applicable	Same as LIHEAP
Trio programs, including Upward Bound, Student Support Centers, Talent Search, Educational Opportunity Centers, Ronald E. McNair Post-baccalaureate Achievement	463	discretionary	no	not applicable	Participants must have family income below 150 percent of the poverty thresholds.	yes	Eligibility is determined based on "taxable" income, which excludes some government cash and all noncash transfers.	yes	Increase in the number counted as poor would mean a smaller proportion of eligibles could be served at current levels, creating upward pressure on appropriations.
Senior Community Service Employment Program	454	discretionary	no	not applicable	Participants must be at least 55 years of age and have incomes below 125 percent of the poverty guidelines.	yes	no	not applicable	Same as Trio.
Legal Services Corporation	283	discretionary	no	not applicable	Clients must have incomes below 125 percent of the poverty guidelines (150 percent in some cases).	no	No set deductions, but medical expenses, child care, and other work expenses may be taken into account in providing services to families with gross income above the ceiling.		Same as Trio.
Title X Family Planning Services	203	discretionary	Number of poor women is a factor in allocation of funds.	yes	Free services are available to persons with family income below the poverty guidelines.		no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Medicaid grant program for low-income Medicare beneficiaries	200	mandatory	State allocations based on share of Medicare beneficiaries with family incomes from 120-175 percent of poverty thresholds.	yes	Beneficiaries must have family income from 120-175 percent of poverty guidelines.	yes	Deductions from income must be consistent with SSI rules.	yes	Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Emergency Shelter Grants	165	discretionary	Similar to CDBG above.	yes	no	not applicable	not applicable	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation.
Weatherization assistance	112	discretionary	Number of households with incomes below 125 percent of poverty is a factor in allocation.	yes	Recipients must have incomes below 125 percent of poverty guidelines (150 percent under some circumstances), or be recipients of cash welfare.	yes	no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Foster Grandparents	83	discretionary	Number of persons 60 and older with incomes below 100 percent of poverty is a factor in allocation.	yes	Participants must have incomes below 125 percent of the poverty guidelines (with some exceptions).	yes	no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.

Program	1998 outlays (millions)	BEA category	Poverty thresholds a factor in allocations to states or other grantees?	Is this by statute?	Poverty guidelines a factor in eligibility of families and individuals?	Is this by statute?	Income deductions and adjustments	Is this by statute?	Sensitivity to change in poverty measures
Senior Companions	45	discretionary	Number of persons 60 and older with incomes below 100 percent of poverty is a factor in allocation.	yes	Participants must have incomes below 125 percent of the poverty guidelines (with some exceptions).	yes	no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.

July 20, 1998

Impacts of NRC poverty measure on allocation of grants among States

The attached sheets present hypothetical impacts on grants to States from adopting the poverty measure recommended by the National Research Council in its 1995 report, Measuring Poverty: A New Approach. The impacts are generated by comparing State shares of the 1996 poverty population calculated by the current thresholds and by the proposed new thresholds. With most grant programs, poverty is only one factor in allocation formulas. So the hypothetical impacts on grant funds on the following sheets reflect only the portions of program funds that are determined by poverty shares. Several other qualifications need to be kept in mind.

"Benchmark" NRC thresholds with no interarea variation: These comparisons employ what are being termed the "benchmark" NRC thresholds, meaning the ones that yield the same overall national poverty rate for 1996 as the official poverty measure. One NRC recommendation, that the thresholds vary by geographic location, was not employed. Other tables are available which show the State-level effects of this recommendation on the distribution of the poverty population.

Datasets for State-level poverty determinations: The dataset employed for the comparisons is the March 1997 Current Population Survey that provides demographic data as of the March 1997 interview date, and income data for calendar year 1996. The CPS is not designed to provide state-level estimates, so the simulated poverty count or rate for particular states, especially small states, are subject to significant sampling error. However, because the comparisons of poverty calculated with different thresholds both use the same dataset, we can have confidence in the direction and whether the magnitude of the changes resulting from adopting the NRC thresholds is small or large.

Most of the programs simulated on the attached sheets use decennial census data in their allocation formulas in order to get more accurate State-level counts of the poor. In the past, the decennial census has asked about family composition and pre-tax money income, the factors needed to make poverty determinations under the current measure. It is already too late to modify the 2000 decennial census to obtain information sufficient for the more complex NRC measure of poverty. It is hoped that the American Community Survey, an ongoing survey intended to replace the decennial census long-form, can be made suitable to provide State-level poverty counts reflecting the NRC recommendations.

Allocation of Title I basic grant funds among states

poor children aged 5 to 17	official poor	NRC "benchmark" poor without interarea variation	change in shares	change in 1998 basic grants (millions)
Maine	0.29%	0.40%	40.2%	6.7
New Hampshire	0.15%	0.25%	62.8%	5.6
Vermont	0.20%	0.22%	7.8%	0.9
Massachusetts	1.54%	1.59%	3.3%	3.0
Rhode Island	0.19%	0.21%	8.7%	1.0
Connecticut	1.69%	1.73%	2.4%	2.3
New York	8.87%	7.88%	-11.2%	(58.1)
New Jersey	1.96%	1.81%	-7.5%	(8.6)
Pennsylvania	3.66%	3.94%	7.7%	16.4
Ohio	3.72%	3.66%	-1.8%	(3.9)
Indiana	0.84%	1.24%	48.2%	23.6
Illinois	4.02%	3.62%	-10.0%	(23.5)
Michigan	3.04%	3.14%	3.5%	6.3
Wisconsin	1.13%	1.43%	26.1%	17.3
Minnesota	1.36%	1.12%	-17.3%	(13.8)
Iowa	0.72%	0.80%	11.1%	4.7
Missouri	1.29%	1.64%	27.2%	20.5
North Dakota	0.14%	0.12%	-12.0%	(1.0)
South Dakota	0.18%	0.24%	35.5%	3.7
Nebraska	0.43%	0.45%	4.8%	1.2
Kansas	0.58%	0.55%	-5.9%	(2.0)
Delaware	0.18%	0.19%	0.6%	0.1
Maryland	1.39%	1.49%	7.8%	6.3
District of Columbia	0.33%	0.25%	-24.6%	(4.7)
Virginia	1.85%	2.20%	18.8%	20.4
West Virginia	0.61%	0.66%	8.2%	2.9
North Carolina	2.38%	2.87%	20.7%	28.9
South Carolina	1.59%	1.63%	2.1%	2.0
Georgia	2.90%	2.52%	-13.3%	(22.7)
Florida	4.81%	5.18%	7.8%	21.9
Kentucky	2.05%	2.25%	9.5%	11.5
Tennessee	2.42%	2.65%	9.4%	13.4
Alabama	1.74%	2.01%	15.9%	16.1
Mississippi	1.69%	1.84%	9.0%	8.9
Arkansas	1.09%	1.49%	36.7%	23.5
Louisiana	2.48%	2.25%	-9.3%	(13.5)
Oklahoma	1.84%	1.82%	-1.1%	(1.2)
Texas	8.96%	9.09%	1.5%	7.8
Montana	0.49%	0.61%	25.2%	7.2
Idaho	0.42%	0.52%	24.4%	5.9
Wyoming	0.10%	0.13%	28.0%	1.7
Colorado	0.96%	0.96%	-0.8%	(0.5)
New Mexico	1.39%	1.36%	-2.8%	(2.3)
Arizona	3.12%	2.72%	-12.8%	(23.3)
Utah	0.42%	0.34%	-19.4%	(4.8)
Nevada	0.27%	0.42%	54.7%	8.6
Washington	1.65%	1.59%	-3.3%	(3.2)
Oregon	1.17%	1.51%	28.2%	19.4
California	15.20%	13.12%	-13.7%	(121.5)
Alaska	0.18%	0.10%	-43.1%	(4.4)
Hawaii	0.35%	0.23%	-32.4%	(6.5)

Source: Bureau of the Census dataset that will be used in experimental poverty report on NRC recommendations. Note that the Current Population Survey which is the input data to the dataset does not have a sample designed to provide state-level estimates for all states. Small state values on the table are particularly likely to vary from those shown.

Note: Changes in $6.098b basic grants are approximations using state shares. In practice, funding to states reflects per-pupil expenditures in counties, as well as poor children aged 5-17. Change in basic grants due to changes in poverty counts assumes that 96 percent of basic grants are determined by this factor.

Allocation of Head Start funds among states
poor children 5 and younger

	official poor	NRC "benchmark" poor without interarea variation	change in shares	change in 1998 allocations (millions)
Maine	0.3%	0.4%	21.0%	1.3
New Hampshire	0.2%	0.2%	0.8%	0.0
Vermont	0.2%	0.1%	-12.2%	(0.4)
Massachusetts	1.6%	1.6%	3.0%	1.0
Rhode Island	0.3%	0.2%	-34.6%	(2.1)
Connecticut	1.1%	0.9%	-15.9%	(3.7)
New York	7.4%	6.7%	-9.0%	(13.6)
New Jersey	1.7%	1.8%	1.9%	0.7
Pennsylvania	2.4%	2.1%	-11.7%	(5.8)
Ohio	4.2%	4.2%	0.6%	0.5
Indiana	1.0%	1.3%	38.5%	7.6
Illinois	4.3%	4.3%	-0.8%	(0.7)
Michigan	3.2%	3.4%	5.5%	3.6
Wisconsin	1.4%	1.5%	12.2%	3.4
Minnesota	1.1%	0.9%	-11.6%	(2.5)
Iowa	0.7%	0.7%	6.4%	0.9
Missouri	1.0%	1.1%	13.5%	2.6
North Dakota	0.2%	0.1%	-21.7%	(0.7)
South Dakota	0.2%	0.2%	9.2%	0.3
Nebraska	0.6%	0.5%	-23.6%	(3.0)
Kansas	0.9%	0.7%	-21.4%	(4.0)
Delaware	0.2%	0.2%	22.2%	0.7
Maryland	1.8%	1.5%	-16.4%	(5.9)
District of Columbia	0.3%	0.2%	-41.8%	(2.8)
Virginia	1.8%	1.6%	-10.6%	(3.9)
West Virginia	0.7%	0.7%	1.9%	0.3
North Carolina	2.3%	2.5%	5.5%	2.6
South Carolina	0.6%	0.8%	28.0%	3.6
Georgia	2.9%	2.9%	-1.6%	(0.9)
Florida	5.5%	5.4%	-0.4%	(0.5)
Kentucky	1.0%	1.2%	26.8%	5.3
Tennessee	2.8%	2.4%	-12.6%	(7.1)
Alabama	1.6%	1.8%	16.2%	5.2
Mississippi	1.8%	1.6%	-6.9%	(2.5)
Arkansas	1.3%	1.4%	5.4%	1.5
Louisiana	2.6%	2.0%	-22.8%	(12.2)
Oklahoma	1.6%	1.3%	-16.2%	(5.3)
Texas	10.1%	9.8%	-3.0%	(6.2)
Montana	0.5%	0.4%	-4.8%	(0.4)
Idaho	0.4%	0.4%	8.3%	0.7
Wyoming	0.2%	0.1%	-29.9%	(1.2)
Colorado	0.7%	0.7%	-9.0%	(1.4)
New Mexico	1.5%	1.3%	-11.1%	(3.4)
Arizona	3.0%	2.9%	-4.2%	(2.6)
Utah	0.5%	0.5%	1.2%	0.1
Nevada	0.4%	0.4%	16.4%	1.2
Washington	1.9%	1.7%	-10.4%	(3.9)
Oregon	0.9%	1.1%	27.3%	5.0
California	17.1%	14.0%	-17.8%	(62.3)
Alaska	0.2%	0.1%	-45.9%	(1.7)
Hawaii	0.3%	0.2%	-34.4%	(2.4)

Source: Bureau of the Census dataset that will be used in experimental poverty report on NRC recommendations. Note that the Current Population Survey which is the input data to the dataset does not have a sample designed to provide state-level estimates for all states. Small state values on the table are particularly likely to vary from those shown.

Note: In 1998, 87 percent of $4,355 million was available for distribution to states. First, each State an amount equal to its 1981 allocation. Then two-thirds of the remainder was allocated based upon the number of poor children 5 years old or younger. Those are the funds on the table above.

WIC "fair share" funds: Infants and children with family incomes less than 185 percent of poverty

	official poor	NRC "benchmark" poor without interarea variation	change in shares	change in 1998 fair share (millions)
Maine	0.29%	0.29%	2.2%	0.2
New Hampshire	0.26%	0.31%	19.2%	1.5
Vermont	0.18%	0.16%	-9.4%	(0.5)
Massachusetts	1.73%	1.81%	4.8%	2.4
Rhode Island	0.26%	0.29%	11.4%	0.9
Connecticut	0.86%	0.85%	-1.7%	(0.4)
New York	7.12%	6.88%	-3.3%	(6.8)
New Jersey	1.74%	1.69%	-2.9%	(1.5)
Pennsylvania	2.68%	2.91%	8.4%	6.7
Ohio	4.18%	4.24%	1.4%	1.7
Indiana	1.23%	1.73%	40.8%	14.7
Illinois	3.90%	4.17%	6.9%	8.0
Michigan	3.16%	2.97%	-6.1%	(5.7)
Wisconsin	1.52%	1.64%	8.1%	3.6
Minnesota	1.29%	1.45%	13.0%	4.9
Iowa	0.95%	1.12%	17.4%	4.9
Missouri	1.93%	1.69%	-12.1%	(6.8)
North Dakota	0.14%	0.18%	24.8%	1.0
South Dakota	0.24%	0.23%	-4.7%	(0.3)
Nebraska	0.60%	0.61%	1.1%	0.2
Kansas	1.09%	1.15%	5.3%	1.7
Delaware	0.22%	0.20%	-8.6%	(0.6)
Maryland	1.73%	1.79%	3.8%	1.9
District of Columbia	0.26%	0.24%	-8.0%	(0.6)
Virginia	1.91%	2.02%	5.6%	3.2
West Virginia	0.65%	0.59%	-9.1%	(1.7)
North Carolina	2.30%	2.43%	5.8%	3.9
South Carolina	1.08%	1.17%	8.0%	2.5
Georgia	2.89%	2.71%	-6.1%	(5.2)
Florida	5.43%	5.33%	-1.9%	(3.0)
Kentucky	1.24%	1.36%	9.3%	3.4
Tennessee	2.31%	2.32%	0.2%	0.1
Alabama	1.75%	1.84%	5.0%	2.6
Mississippi	1.63%	1.55%	-5.3%	(2.5)
Arkansas	1.51%	1.52%	0.4%	0.2
Louisiana	2.01%	1.86%	-7.5%	(4.4)
Oklahoma	1.47%	1.46%	-0.9%	(0.4)
Texas	9.71%	9.38%	-3.4%	(9.8)
Montana	0.46%	0.43%	-6.1%	(0.8)
Idaho	0.55%	0.53%	-4.0%	(0.7)
Wyoming	0.21%	0.21%	-2.2%	(0.1)
Colorado	1.00%	0.99%	-1.2%	(0.4)
New Mexico	1.30%	1.24%	-4.8%	(1.8)
Arizona	2.75%	2.50%	-9.2%	(7.4)
Utah	0.74%	0.96%	29.7%	6.5
Nevada	0.41%	0.45%	10.0%	1.2
Washington	2.24%	2.18%	-2.6%	(1.7)
Oregon	1.17%	1.27%	8.2%	2.8
California	15.04%	14.41%	-4.2%	(18.5)
Alaska	0.19%	0.20%	2.3%	0.1
Hawaii	0.46%	0.50%	7.8%	1.1

Source: Bureau of the Census dataset that will be used in experimental poverty report on NRC recommendations. Note that the Current Population Survey which is the input data to the dataset does not have a sample designed to provide state-level estimates for all states. Small state values on the table are particularly likely to vary from those shown.

Note: Reflects $2.9b "fair share" funds. Other WIC "stabilization funds" are distributed based on prior year's allocations.

1998 CHIP grants under current poverty measure and NRC "benchmark," no interarea variation

	uninsured children less than 200% official poverty	uninsured children less than 200% NRC poverty	state cost factor	official product	nrc product	official share	nrc share	1998 CHIP grants official share (millions)	nrc share (millions)	change with nrc (millions)	percentage change to current grant
Maine	26,659	31,391	0.8863	23,628	27,822	0.31%	0.34%	13.0	14.2	(1.2)	9.6%
New Hampshire	19,937	24,975	0.976	19,458	24,376	0.25%	0.30%	10.7	12.5	(1.8)	16.6%
Vermont	3,370	3,370	0.8604	2,900	2,900	0.04%	0.04%	1.6	1.5	0.1	-6.9%
Massachusetts	95,404	101,082	1.0576	100,899	106,905	1.32%	1.30%	55.5	54.7	0.8	-1.4%
Rhode Island	6,844	6,844	0.958	6,556	6,556	0.09%	0.08%	3.6	3.4	0.2	-6.9%
Connecticut	63,658	63,999	1.1237	71,532	71,916	0.94%	0.88%	39.3	36.8	2.5	-6.4%
New York	476,282	511,847	1.0914	519,815	558,630	6.80%	6.80%	285.9	286.0	(0.1)	0.0%
New Jersey	204,635	229,597	1.1241	230,031	258,090	3.01%	3.14%	126.5	132.1	(5.6)	4.4%
Pennsylvania	170,714	177,162	1.0005	170,799	177,251	2.23%	2.16%	93.9	90.8	3.2	-3.4%
Ohio	213,116	238,801	0.9617	204,954	229,654	2.68%	2.80%	112.7	117.6	(4.9)	4.3%
Indiana	77,818	80,820	0.9169	71,351	74,104	0.93%	0.90%	39.2	37.9	1.3	-3.3%
Illinois	177,659	194,312	0.9892	175,740	192,213	2.30%	2.34%	96.7	98.4	(1.7)	1.8%
Michigan	122,210	123,137	1.0001	122,222	123,149	1.60%	1.50%	67.2	63.1	4.2	-6.2%
Wisconsin	48,873	57,813	0.9229	45,105	53,356	0.59%	0.65%	24.8	27.3	(2.5)	10.1%
Minnesota	68,894	76,431	0.9675	66,655	73,947	0.87%	0.90%	36.7	37.9	(1.2)	3.3%
Iowa	51,502	61,228	0.8253	42,504	50,531	0.56%	0.62%	23.4	25.9	(2.5)	10.7%
Missouri	113,742	120,728	0.9075	103,221	109,560	1.35%	1.33%	56.8	56.1	0.7	-1.2%
North Dakota	11,556	14,728	0.8587	9,923	12,647	0.13%	0.15%	5.5	6.5	(1.0)	18.6%
South Dakota	8,265	9,454	0.8559	7,074	8,092	0.09%	0.10%	3.9	4.1	(0.3)	6.5%
Nebraska	22,023	31,593	0.844	18,587	26,664	0.24%	0.32%	10.2	13.7	(3.4)	33.5%
Kansas	48,320	49,288	0.8704	42,058	42,900	0.55%	0.52%	23.1	22.0	1.2	-5.1%
Delaware	20,353	22,189	1.0553	21,479	23,416	0.28%	0.29%	11.8	12.0	(0.2)	1.5%
Maryland	79,002	82,815	1.0498	82,937	86,939	1.09%	1.06%	45.6	44.5	1.1	-2.4%
District of Columbia	11,005	12,267	1.2857	14,150	15,772	0.19%	0.19%	7.8	8.1	(0.3)	3.8%
Virginia	130,080	133,846	0.9862	128,285	131,998	1.68%	1.61%	70.6	67.6	3.0	-4.2%
West Virginia	21,892	23,885	0.8937	19,565	21,346	0.26%	0.26%	10.8	10.9	(0.2)	1.6%
North Carolina	217,536	241,493	0.9815	213,512	237,025	2.79%	2.89%	117.4	121.4	(3.9)	3.3%
South Carolina	152,157	152,157	0.9843	149,768	149,768	1.96%	1.82%	82.4	76.7	5.7	-6.9%
Georgia	202,499	228,500	0.9923	200,940	226,741	2.63%	2.76%	110.5	116.1	(5.6)	5.0%
Florida	433,805	451,289	1.0368	449,769	467,896	5.88%	5.70%	247.4	239.6	7.8	-3.2%
Kentucky	129,499	135,713	0.9146	118,439	124,123	1.55%	1.51%	65.1	63.5	1.6	-2.4%
Tennessee	242,909	208,164	0.9799	238,027	203,980	3.11%	2.48%	130.9	104.4	26.5	-20.2%
Alabama	106,259	108,585	0.951	101,052	103,265	1.32%	1.26%	55.6	52.9	2.7	-4.9%
Mississippi	121,305	133,425	0.8675	105,232	115,746	1.38%	1.41%	57.9	59.3	(1.4)	2.4%
Arkansas	118,364	134,076	0.8871	105,001	118,939	1.37%	1.45%	57.8	60.9	(3.1)	5.4%
Louisiana	215,408	227,668	0.8934	192,446	203,399	2.52%	2.48%	105.8	104.1	1.7	-1.6%
Oklahoma	149,080	177,786	0.8588	128,030	152,682	1.67%	1.86%	70.4	78.2	(7.8)	11.0%
Texas	1,065,890	1,149,898	0.9275	988,613	1,066,530	12.93%	12.99%	543.8	546.0	(2.3)	0.4%
Montana	22,321	23,607	0.8333	18,600	19,671	0.24%	0.24%	10.2	10.1	0.2	-1.6%
Idaho	31,098	32,713	0.8726	27,136	28,545	0.35%	0.35%	14.9	14.6	0.3	-2.1%
Wyoming	12,773	11,315	0.8758	11,187	9,910	0.15%	0.12%	6.2	5.1	1.1	-17.5%
Colorado	111,736	140,539	0.9888	110,485	138,965	1.45%	1.69%	60.6	71.1	(10.4)	17.1%
New Mexico	99,244	100,463	0.9169	90,997	92,114	1.19%	1.12%	50.1	47.2	2.9	-5.8%
Arizona	318,446	328,013	1.0472	333,477	343,495	4.36%	4.18%	183.4	175.9	7.6	-4.1%
Utah	49,468	54,001	0.8977	44,407	48,476	0.58%	0.59%	24.4	24.8	(0.4)	1.6%
Nevada	47,979	55,562	1.2046	57,796	66,930	0.76%	0.82%	31.8	34.3	(2.5)	7.8%
Washington	147,448	147,448	0.9352	137,893	137,893	1.80%	1.68%	75.8	70.6	5.2	-6.9%
Oregon	100,744	111,955	0.9947	100,210	111,361	1.31%	1.36%	55.1	57.0	(1.9)	3.4%
California	1,201,351	1,314,797	1.1365	1,365,335	1,494,267	17.86%	18.20%	751.0	765.0	(14.1)	1.9%
Alaska	15,548	19,691	1.0669	16,588	21,009	0.22%	0.26%	9.1	10.8	(1.6)	17.9%
Hawaii	14,960	15,611	1.1722	17,536	18,300	0.23%	0.22%	9.6	9.4	0.3	-2.9%

Source: Bureau of the Census dataset that will be used in experimental poverty report on NRC recommendations. Note that the Current Population Survey which is the input data to the dataset does not have a sample designed to provide state-level estimates for all states. Small state values on the table are particularly likely to vary from those shown.

Shares of rural poor, a factor used in allocation of rural development program funds

	official poor	NRC "benchmark" poor without interarea variation	change in shares
Maine	1.15%	1.24%	7.2%
New Hampshire	0.52%	0.55%	5.1%
Vermont	0.83%	0.73%	-12.1%
Massachusetts	0.51%	0.48%	-7.5%
Rhode Island	0.00%	0.00%	
Connecticut	0.00%	0.00%	
New York	1.86%	1.83%	-1.6%
New Jersey	0.00%	0.00%	
Pennsylvania	2.13%	2.92%	37.3%
Ohio	3.56%	3.76%	5.6%
Indiana	2.49%	3.29%	31.9%
Illinois	3.70%	3.27%	-11.8%
Michigan	1.51%	1.42%	-6.3%
Wisconsin	2.35%	2.41%	2.6%
Minnesota	2.32%	2.47%	6.2%
Iowa	2.10%	2.06%	-1.7%
Missouri	2.41%	2.32%	-3.6%
North Dakota	0.52%	0.57%	8.0%
South Dakota	0.76%	0.80%	5.0%
Nebraska	0.73%	1.01%	37.7%
Kansas	1.41%	1.54%	9.3%
Delaware	0.15%	0.22%	50.6%
Maryland	0.00%	0.00%	
District of Columbia	0.00%	0.00%	
Virginia	2.19%	2.42%	10.1%
West Virginia	1.93%	1.89%	-2.3%
North Carolina	2.96%	3.84%	29.9%
South Carolina	2.50%	2.26%	-9.6%
Georgia	6.00%	5.56%	-7.3%
Florida	1.88%	2.52%	34.2%
Kentucky	5.07%	5.29%	4.5%
Tennessee	3.87%	3.87%	0.2%
Alabama	3.23%	3.60%	11.5%
Mississippi	5.56%	4.83%	-13.3%
Arkansas	3.43%	3.53%	3.0%
Louisiana	2.63%	1.66%	-36.9%
Oklahoma	3.00%	2.59%	-13.6%
Texas	6.80%	7.96%	17.0%
Montana	1.63%	1.60%	-1.7%
Idaho	1.29%	1.42%	10.3%
Wyoming	0.51%	0.52%	1.0%
Colorado	1.25%	1.03%	-17.2%
New Mexico	3.08%	2.44%	-20.8%
Arizona	2.72%	2.09%	-23.2%
Utah	0.55%	0.41%	-25.4%
Nevada	0.07%	0.11%	61.3%
Washington	3.13%	2.29%	-26.9%
Oregon	1.68%	1.94%	15.5%
California	1.07%	0.89%	-16.6%
Alaska	0.39%	0.19%	-51.4%
Hawaii	0.55%	0.37%	-32.7%

Source: Bureau of the Census dataset that will be used in experimental poverty report on NRC recommendations. Note that the Current Population Survey which is the input data to the dataset does not have a sample designed to provide state-level estimates for all states. Small state values on the table are particularly likely to vary from those shown.

POVERTY QUESTIONS -- MEDICAID

1. How would reducing the poverty threshold by 14% impact Medicaid program spending levels, geographic allocation, eligibility and/or participation?

Based on TRIM runs performed by BRD, the Health Division estimates, on a preliminary and highly speculative basis, that the poverty threshold change could result in the following:

- A decrease of approximately 1 million full-year equivalent enrollees in FY99, approximately 850,000 of which would be children.
- A one-year decrease in FY99 of approximately a billion and a half dollars in federal Medicaid spending.
- A five-year federal Medicaid spending decrease of approximately $7-$8 billion.
- A potential change in the allocation of funds among States to provide Medicare premium assistance to low-income elderly and disabled people between 120 and 175 percent of poverty.

Caveats: This analysis assumes that States do not choose to change the eligibility criteria in their waiver programs or make changes in poverty-related optional eligibility categories. This analysis is based on an extrapolation of changes in enrollment from 1995 TRIM model data to the FY 1999 President's Budget Medicaid baseline assumptions. These OMB staff estimates are preliminary and have not been reviewed by the HCFA actuaries.

Background: Changes in the poverty thresholds could affect at least three major Medicaid eligibility groups. First, Title 19 of the Social Security Act requires every state to extend coverage to pregnant women, infants and children up to age 6 with family incomes below 133 percent of the Federal poverty level and to children who are between age 6 and 19 with incomes at or below the poverty level (this provision is being phased-in for all poor children under 19 by 2002)

Second, most States have chosen to expand poverty-based eligibility beyond mandatory levels using current law and waiver authority. At least 12 States have Medicaid waivers that extend coverage beyond current law requirements to additional families, children and uninsured based on their income in relation to Federal poverty guidelines. For example, Minnesota has a Medicaid waiver to cover all children under 270 percent of poverty. Since waivers are not generally reflected in the TRIM model, it is likely that the number of individuals who could lose coverage as a result of a change in the poverty guideline is underestimated. In addition, it is unclear whether TRIM captures flexibility States have under current law to develop methodologies for counting income and resources in determining eligibility for certain groups, which could also lead to an underestimation of the number of individuals who might lose assistance due to changes in the poverty guideline.

Third, Medicaid eligibility has also been expanded to provide partial coverage for new groups of low-income Medicare beneficiaries. State Medicaid programs are required to pay for Medicare premiums and some cost-sharing for Medicare beneficiaries below 120 percent of poverty. In addition, the BBA established a new Medicare low-income assistance grant program ($1.5 billion over five years) to provide some premium assistance to Medicare beneficiaries whose incomes fall between 120 and 175 percent of poverty. These grants are determined based on poverty levels.

2. What can be done administratively or legislatively to address unfortunate affects of this guideline change?

The most important possible unfortunate effect of the guideline change in Medicaid is the potential reduction in enrollees. As noted above, changing the poverty threshold could result in a decrease of approximately 1 million full-year equivalent enrollees in FY99, including 850,000 children and 60,000 elderly.

The effect on children can potentially be mitigated administratively at the discretion of the States. First, States can request waivers (or renegotiate existing waivers) of the Social Security Act to address eligibility. Second, section 1902(r)(2) of the Social Security Act gives States the option to adjust the methodology used in evaluating income and resources for determining eligibility for pregnant women and children. The adjusted methodology can be no more restrictive but may be more liberal than the methodology that would be applied under the most closely related cash assistance program. States can use this option to allow for more types and greater amounts of income and resource disregards, and can structure their eligibility policies so that more children and pregnant women could qualify for Medicaid coverage and the accompanying Federal matching. Many States have used the option to revise their methodologies to disregard parental income of pregnant women living in their parents' home. Washington effectively expanded coverage to all children under 19 with incomes below poverty. Minnesota increased its coverage to all pregnant women and children under 19 with incomes below 270 percent of poverty. Other States could use section 1902(r)(2) to expand eligibility to children and pregnant women in the event a change in the poverty threshold leads to a reduction in coverage among children.

States have less flexibility to act to mitigate the effect on elderly and disabled individuals who receive Medicaid assistance to pay Medicare premiums. States could request waivers to expand coverage to these individuals, but there is no authority similar to the wide flexibility States have with respect to income and resource methodologies for children and pregnant women.

3. How confident are we in the numbers and answers given above? How much more confident would we be if we could share these questions with the agencies to get their input? What other caveats or uncertainties (e.g. State behavior and

waiver adjustments) would we like to include in our analysis?

The Health Division believes that additional analysis is necessary by HCFA to confirm the numbers provided above. We traditionally work very closely with HCFA actuaries who have the most in-depth knowledge and understanding of Medicaid eligibility issues and budgetary interactions. Before proceeding on a policy of this magnitude, we strongly recommend consulting with the agency and seeking their analytic input.
We are confident that States have wide latitude to address any potential reduction in child enrollees that results from a change in the poverty guidelines.

	poverty rates			distribution of poverty population		
	official poor	NRC "benchmark" poor **with** interarea variation	NRC "benchmark" poor **without** interarea variation	official poor	NRC "benchmark" poor **with** interarea variation	NRC "benchmark" poor **without** interarea variation
overall	13.7%	13.8%	13.8%	100%	100%	100%
younger than 18	20.5%	18.2%	18.1%	39.6%	35.0%	34.9%
18-64	11.4%	11.5%	11.6%	51.0%	51.3%	51.5%
65 and older	10.8%	15.7%	15.7%	9.4%	13.6%	13.6%
white	11.2%	11.8%	12.0%	67.5%	70.8%	71.6%
black	28.4%	25.4%	25.0%	26.5%	23.6%	23.2%
other	17.5%	16.4%	15.4%	6.0%	5.6%	5.2%
northeast	12.7%	14.3%	12.2%	18.0%	20.1%	17.1%
midwest	10.7%	10.4%	11.4%	18.2%	17.6%	19.2%
south	15.1%	14.3%	16.0%	38.6%	36.2%	40.5%
west	15.4%	16.1%	14.3%	25.2%	26.2%	23.3%
central city	19.9%	20.1%	18.2%	35.9%	36.2%	32.7%
other metro	9.2%	10.7%	9.8%	28.1%	32.6%	29.8%
non-metro	16.0%	13.5%	17.3%	22.6%	19.1%	24.3%
unknown	13.2%	12.0%	13.1%	13.4%	12.2%	13.2%

Poverty rates

	official			NRC "benchmark" poor with interarea variation			NRC "benchmark" poor without interarea variation		
	all persons	children	aged	all persons	children	aged	all persons	children	aged
Maine	11.2%	16.4%	10.6%	15.3%	21.3%	22.2%	13.6%	20.0%	18.8%
New Hampshire	6.4%	9.5%	6.3%	9.9%	13.4%	14.2%	7.5%	11.6%	6.9%
Vermont	12.6%	17.7%	9.0%	15.0%	18.6%	16.9%	12.0%	15.5%	11.7%
Massachusetts	10.1%	14.7%	9.0%	13.1%	16.3%	16.6%	10.5%	13.7%	12.3%
Rhode Island	11.0%	15.0%	17.7%	11.8%	13.1%	19.0%	10.3%	12.2%	15.8%
Connecticut	11.7%	22.7%	5.5%	12.6%	21.6%	7.7%	10.9%	19.6%	6.2%
New York	16.7%	25.1%	13.0%	17.9%	24.5%	19.4%	15.0%	20.2%	15.8%
New Jersey	9.2%	14.2%	10.0%	11.2%	15.3%	15.7%	8.7%	12.3%	12.2%
Pennsylvania	11.6%	15.7%	10.7%	12.3%	15.3%	14.2%	11.9%	14.4%	13.7%
Ohio	12.7%	18.8%	10.8%	12.2%	16.9%	15.6%	12.9%	17.0%	16.2%
Indiana	7.5%	9.2%	7.5%	8.9%	10.6%	8.9%	10.5%	11.8%	11.4%
Illinois	12.1%	18.6%	8.7%	11.5%	16.0%	12.2%	11.6%	15.9%	12.8%
Michigan	11.2%	17.7%	8.7%	11.4%	15.9%	15.5%	11.8%	16.5%	15.1%
Wisconsin	8.8%	12.5%	9.4%	8.6%	10.2%	15.8%	10.5%	13.0%	16.7%
Minnesota	9.8%	13.2%	10.0%	8.1%	7.6%	15.5%	9.6%	9.9%	19.2%
Iowa	9.6%	12.3%	9.6%	8.2%	9.0%	9.9%	10.5%	12.1%	12.9%
Missouri	9.5%	12.0%	11.4%	9.4%	12.7%	11.3%	10.1%	13.1%	12.6%
North Dakota	11.0%	13.0%	10.3%	8.8%	5.7%	14.0%	11.8%	9.7%	18.9%
South Dakota	11.8%	13.9%	10.9%	11.3%	12.2%	16.2%	14.0%	15.6%	20.1%
Nebraska	10.2%	15.1%	9.0%	9.6%	11.2%	14.7%	11.4%	12.6%	18.9%
Kansas	11.2%	13.5%	10.3%	9.9%	9.2%	16.5%	11.9%	11.2%	17.9%
Delaware	8.6%	14.3%	6.7%	12.3%	15.5%	19.4%	11.1%	13.4%	19.4%
Maryland	10.3%	16.6%	6.2%	11.1%	16.0%	9.6%	9.8%	14.8%	8.4%
District of Columbia	24.1%	38.6%	23.1%	22.9%	30.2%	34.0%	19.0%	24.5%	26.4%
Virginia	12.3%	17.7%	11.8%	13.3%	17.9%	18.6%	13.2%	17.6%	18.7%
West Virginia	18.5%	26.7%	16.3%	16.5%	21.5%	16.6%	19.3%	25.3%	19.7%
North Carolina	12.2%	18.8%	13.5%	14.2%	19.8%	23.0%	14.7%	19.4%	25.9%
South Carolina	13.0%	19.4%	14.7%	10.9%	14.9%	12.1%	13.1%	18.2%	16.9%
Georgia	14.8%	21.3%	15.4%	15.0%	17.9%	18.8%	14.9%	17.5%	18.6%
Florida	14.2%	22.2%	8.9%	15.9%	21.1%	15.0%	16.3%	21.4%	15.1%
Kentucky	17.0%	24.9%	13.9%	12.7%	19.0%	12.0%	17.7%	24.7%	15.7%
Tennessee	15.9%	23.7%	14.8%	11.7%	15.3%	15.6%	15.7%	21.4%	19.3%
Alabama	14.0%	22.0%	11.6%	13.2%	18.2%	16.4%	16.8%	23.1%	21.4%
Mississippi	20.6%	29.6%	16.5%	17.4%	23.5%	17.6%	21.5%	27.6%	25.2%
Arkansas	17.2%	23.2%	15.7%	15.3%	20.4%	13.3%	19.8%	26.0%	20.0%
Louisiana	20.5%	31.8%	17.3%	15.8%	20.1%	24.7%	19.6%	24.6%	27.8%
Oklahoma	16.6%	26.4%	10.9%	14.5%	20.2%	16.1%	16.9%	22.7%	19.0%
Texas	16.6%	24.4%	14.7%	14.5%	19.2%	18.4%	16.8%	22.2%	21.1%
Montana	17.0%	26.9%	9.0%	15.0%	22.6%	13.0%	18.3%	27.5%	15.0%
Idaho	11.9%	17.3%	7.0%	11.1%	14.8%	11.5%	13.9%	18.2%	14.3%
Wyoming	11.9%	14.8%	8.4%	10.8%	12.1%	12.4%	12.3%	13.7%	13.4%
Colorado	10.6%	12.5%	8.0%	8.6%	9.3%	5.3%	9.9%	10.8%	7.8%
New Mexico	25.5%	34.2%	18.6%	21.5%	26.5%	17.0%	23.5%	29.1%	19.6%
Arizona	20.5%	31.7%	13.9%	17.1%	23.4%	18.2%	18.5%	25.9%	19.4%
Utah	7.7%	9.6%	3.9%	7.2%	7.9%	3.9%	7.5%	8.0%	3.9%
Nevada	8.1%	11.4%	7.9%	10.3%	14.4%	11.4%	10.0%	13.5%	11.4%
Washington	11.9%	16.7%	7.8%	11.9%	14.8%	15.0%	10.6%	14.2%	11.3%
Oregon	11.8%	20.1%	6.7%	14.7%	22.8%	8.4%	14.5%	22.7%	10.0%
California	16.9%	25.5%	8.1%	18.9%	24.6%	18.1%	15.2%	19.6%	13.9%
Alaska	8.2%	10.6%	4.6%	5.3%	5.2%	7.1%	5.7%	5.6%	8.8%
Hawaii	12.1%	17.0%	8.3%	10.3%	10.2%	10.6%	10.4%	10.6%	10.6%

Source: Bureau of the Census dataset that will be used in experimental poverty report on NRC recommendations. Note that the Current Population Survey which is the input data to the dataset does not have a sample designed to provide state-level estimates for all states. Small state values on the table are particularly likely to vary from those shown.

State shares of the population and poverty population

	population			officially poor			NRC "benchmark" poor with interarea variation			change in share of poor from switch to NRC poverty measure with interarea variation			NRC "benchmark" poor without interarea variation			change in share of poor from switch to NRC poverty measure without interarea variation		
	all persons	children	aged	all persons	children	aged	all persons	children	aged	all persons	children	aged	all persons	children	aged	all persons	children	aged
Maine	0.5%	0.4%	0.5%	0.4%	0.3%	0.5%	0.5%	0.4%	0.7%	36%	46%	43%	0.4%	0.4%	0.6%	20%	37%	21%
New Hampshire	0.4%	0.4%	0.4%	0.2%	0.2%	0.2%	0.3%	0.3%	0.4%	54%	59%	55%	0.2%	0.3%	0.2%	16%	38%	-25%
Vermont	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	19%	19%	29%	0.2%	0.2%	0.1%	-5%	-1%	-11%
Massachusetts	2.3%	2.2%	2.3%	1.7%	1.6%	1.9%	2.2%	2.0%	2.5%	29%	25%	26%	1.8%	1.6%	1.8%	3%	5%	-6%
Rhode Island	0.4%	0.3%	0.5%	0.3%	0.2%	0.8%	0.3%	0.2%	0.6%	7%	-1%	-27%	0.3%	0.2%	0.5%	-7%	-8%	-39%
Connecticut	1.3%	1.3%	1.4%	1.1%	1.4%	0.7%	1.1%	1.5%	0.7%	7%	7%	-3%	1.0%	1.4%	0.6%	-8%	-2%	-22%
New York	6.9%	6.8%	7.0%	8.4%	8.3%	8.4%	8.9%	9.2%	8.6%	7%	10%	2%	7.5%	7.6%	7.0%	-11%	-9%	-17%
New Jersey	3.0%	2.6%	3.2%	2.0%	1.8%	3.0%	2.4%	2.2%	3.2%	21%	21%	7%	1.9%	1.8%	2.5%	-7%	-3%	-17%
Pennsylvania	4.5%	4.2%	5.4%	3.8%	3.2%	5.4%	4.0%	3.5%	4.9%	6%	10%	-9%	3.8%	3.3%	4.7%	2%	4%	-13%
Ohio	4.2%	4.3%	4.6%	3.9%	3.9%	4.6%	3.7%	4.0%	4.5%	-4%	2%	-1%	4.0%	4.0%	4.7%	2%	3%	3%
Indiana	2.1%	1.9%	2.5%	1.2%	0.9%	1.7%	1.4%	1.1%	1.4%	17%	31%	-19%	1.6%	1.3%	1.8%	38%	45%	4%
Illinois	4.4%	4.6%	4.1%	3.9%	4.2%	3.3%	3.7%	4.0%	3.2%	-5%	-3%	-4%	3.7%	4.0%	3.3%	-5%	-4%	0%
Michigan	3.6%	3.6%	3.8%	2.9%	3.1%	3.1%	3.0%	3.2%	3.7%	2%	1%	22%	3.1%	3.3%	3.6%	5%	5%	19%
Wisconsin	2.0%	2.0%	1.9%	1.3%	1.2%	1.6%	1.2%	1.1%	1.9%	-3%	-9%	15%	1.5%	1.5%	2.0%	16%	17%	21%
Minnesota	1.8%	1.9%	1.4%	1.3%	1.2%	1.3%	1.0%	0.8%	1.4%	-18%	-35%	6%	1.2%	1.0%	1.7%	-2%	-15%	31%
Iowa	1.1%	1.2%	1.1%	0.8%	0.7%	1.0%	0.8%	0.6%	0.7%	-15%	-17%	-29%	0.8%	0.8%	0.9%	9%	11%	-8%
Missouri	2.0%	2.0%	2.3%	1.4%	1.2%	2.5%	1.4%	1.4%	1.7%	-1%	19%	-32%	1.4%	1.4%	1.9%	5%	23%	-24%
North Dakota	0.2%	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%	0.1%	0.2%	-20%	-50%	-7%	0.2%	0.1%	0.3%	7%	-15%	26%
South Dakota	0.3%	0.3%	0.3%	0.2%	0.2%	0.3%	0.2%	0.2%	0.3%	-4%	-2%	2%	0.3%	0.2%	0.4%	18%	27%	26%
Nebraska	0.6%	0.7%	0.7%	0.5%	0.5%	0.6%	0.4%	0.4%	0.6%	-6%	-16%	12%	0.5%	0.5%	0.8%	12%	-5%	43%
Kansas	1.0%	1.1%	1.1%	0.8%	0.7%	1.1%	0.7%	0.5%	1.2%	-12%	-23%	10%	0.8%	0.7%	1.2%	6%	-6%	19%
Delaware	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	43%	22%	97%	0.2%	0.2%	0.3%	29%	6%	97%
Maryland	1.9%	1.9%	1.8%	1.4%	1.5%	1.0%	1.5%	1.6%	1.1%	8%	9%	7%	1.4%	1.5%	1.0%	-5%	0%	-6%
District of Columbia	0.2%	0.2%	0.2%	0.4%	0.3%	0.5%	0.3%	0.3%	0.5%	-5%	-12%	1%	0.3%	0.2%	0.4%	-22%	-28%	-22%
Virginia	2.4%	2.1%	2.3%	2.2%	1.8%	2.6%	2.3%	2.0%	2.8%	8%	14%	8%	2.3%	2.0%	2.8%	7%	12%	8%
West Virginia	0.7%	0.5%	0.9%	0.9%	0.6%	1.4%	0.8%	0.6%	1.0%	-11%	-9%	-30%	0.9%	0.7%	1.1%	3%	7%	-17%
North Carolina	2.7%	2.5%	2.7%	2.4%	2.3%	3.4%	2.8%	2.8%	3.9%	16%	19%	17%	2.9%	2.7%	4.4%	20%	17%	31%
South Carolina	1.4%	1.3%	1.1%	1.3%	1.3%	1.6%	1.1%	1.1%	0.9%	-17%	-14%	-44%	1.3%	1.4%	1.2%	0%	6%	-21%
Georgia	2.8%	2.7%	2.4%	3.0%	2.9%	3.4%	3.0%	2.7%	2.8%	1%	-5%	-17%	3.0%	2.6%	2.8%	0%	-7%	-18%
Florida	5.4%	4.7%	7.8%	5.6%	5.1%	6.4%	6.2%	5.4%	7.5%	12%	7%	16%	6.3%	5.5%	7.5%	14%	9%	16%
Kentucky	1.5%	1.4%	1.5%	1.8%	1.7%	2.0%	1.3%	1.5%	1.2%	-25%	-14%	-41%	1.9%	1.9%	1.5%	4%	12%	-23%
Tennessee	2.1%	2.1%	2.1%	2.4%	2.4%	2.9%	1.8%	1.8%	2.1%	-26%	-27%	-28%	2.4%	2.5%	2.6%	-2%	2%	-11%
Alabama	1.6%	1.6%	1.9%	1.6%	1.7%	2.0%	1.5%	1.6%	1.9%	-6%	-7%	-3%	2.0%	2.0%	2.5%	20%	19%	26%
Mississippi	1.1%	1.2%	0.9%	1.6%	1.7%	1.3%	1.3%	1.5%	1.0%	-16%	-11%	-27%	1.6%	1.8%	1.4%	4%	5%	4%
Arkansas	1.0%	1.1%	1.0%	1.2%	1.2%	1.5%	1.1%	1.2%	0.9%	-11%	-1%	-42%	1.4%	1.5%	1.3%	14%	27%	-13%
Louisiana	1.6%	1.6%	1.5%	2.4%	2.5%	2.4%	1.8%	1.8%	2.4%	-23%	-29%	-2%	2.3%	2.2%	2.7%	-5%	-12%	10%
Oklahoma	1.3%	1.3%	1.4%	1.5%	1.7%	1.5%	1.3%	1.5%	1.5%	-13%	-14%	1%	1.5%	1.7%	1.7%	1%	-3%	19%
Texas	7.2%	7.8%	5.6%	8.7%	9.3%	7.7%	7.6%	8.2%	6.6%	-13%	-12%	-14%	8.8%	9.6%	7.5%	1%	3%	-2%
Montana	0.3%	0.4%	0.3%	0.4%	0.5%	0.3%	0.4%	0.5%	0.3%	-12%	-5%	-1%	0.5%	0.6%	0.3%	7%	15%	14%
Idaho	0.4%	0.5%	0.4%	0.4%	0.4%	0.3%	0.4%	0.4%	0.3%	-7%	-3%	13%	0.4%	0.5%	0.4%	17%	19%	40%
Wyoming	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	-10%	-8%	1%	0.2%	0.1%	0.1%	2%	4%	9%
Colorado	1.5%	1.4%	1.1%	1.1%	0.9%	0.8%	0.9%	0.7%	0.4%	-20%	-16%	-54%	1.0%	0.9%	0.5%	-7%	-2%	-33%
New Mexico	0.7%	0.9%	0.6%	1.3%	1.5%	1.0%	1.1%	1.3%	0.6%	-16%	-13%	-37%	1.2%	1.4%	0.7%	-8%	-4%	-28%
Arizona	1.8%	2.0%	1.8%	2.7%	3.1%	2.4%	2.2%	2.6%	2.1%	-17%	-17%	-10%	2.4%	2.9%	2.3%	-10%	-8%	-4%
Utah	0.8%	0.9%	0.6%	0.4%	0.4%	0.2%	0.4%	0.4%	0.2%	-6%	-7%	-31%	0.4%	0.4%	0.2%	-2%	-5%	-32%
Nevada	0.6%	0.6%	0.6%	0.4%	0.3%	0.5%	0.5%	0.5%	0.4%	26%	43%	-2%	0.4%	0.4%	0.4%	22%	34%	-2%
Washington	2.1%	2.1%	1.6%	1.8%	1.7%	1.2%	1.8%	1.7%	1.5%	0%	0%	32%	1.6%	1.7%	1.1%	-12%	-5%	-1%
Oregon	1.2%	1.1%	1.3%	1.0%	1.1%	0.8%	1.3%	1.4%	0.7%	24%	28%	-14%	1.3%	1.4%	0.8%	22%	28%	2%
California	12.1%	12.9%	10.4%	15.0%	16.0%	7.9%	16.7%	17.4%	12.0%	11%	9%	52%	13.4%	13.9%	9.2%	-11%	-13%	17%
Alaska	0.2%	0.3%	0.1%	0.1%	0.2%	0.0%	0.1%	0.1%	0.0%	-36%	-45%	4%	0.1%	0.1%	0.1%	-31%	-41%	30%
Hawaii	0.4%	0.4%	0.5%	0.4%	0.3%	0.4%	0.3%	0.2%	0.3%	-15%	-32%	-12%	0.3%	0.2%	0.3%	-14%	-29%	-12%

Source: Bureau of the Census dataset that will be used in experimental poverty report on NRC recommendations. Note that the Current Population Survey which is the input data to the dataset does not have a sample designed to provide state-level estimates for all states. Small state values on the table are particularly likely to vary from those shown.

Poverty measurement

Andrea Kane [redacted]

Record Type: Record

To: Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP, Bruce N. Reed/OPD/EOP

cc: Cynthia A. Rice/OPD/EOP
Subject: Poverty Measures Update

At the NEC, DPC, OMB meeting yesterday, OMB presented their preliminary estimates of potential impact of revised poverty measure on key programs, including Medicaid, food stamps, and some of the grant programs such asTitle I, Head Start, CHIP. I'm sending over hard copies of their paper. There are lots of caveats on the estimates, but this is as far as OMB staff feel they can go without involving agencies. The estimates do show that changes in the poverty measure would have substantial impacts on eligibility for the entitlement programs, unless there are corresponding changes in poverty guidelines or eligibility rules. In the grant programs there could be a lot of distributional changes among states. These estimates have definitely helped focus the discussion on options related to whether to change the poverty measure and if so, how.
The plan is to revise and expand the draft memo on whether [redacted] to benchmark to include some broader options and to schedule another principals meeting for 1st week of August. There is growing interest in possibly decoupling an alternative poverty measure used for statistical purposes from the guidelines used to set program eligibility. NEC is aiming to get a draft memo out for review by end of the week. OMB has also confirmed that Census' current plan is to highlight 3 alternative poverty measure series, all benchmarked to the 97 official measure. They would then publish multiple series, some not benchmarked in the Appendix of their report.

unrealistic

Elena - 6/18

Handout from Tuesday meeting on poverty measures.

This is OMB's very rough 1st cut at programs that could be affected by poverty measure change.

Andrea

Program	1998 outlays (millions)	BEA category	Poverty thresholds a factor in allocations to states or other grantees?	Is this by statute?	Poverty guidelines a factor in eligibility of families and individuals?	Is this by statute?	Income deductions and adjustments	Is this by statute?	Sensitivity to change in poverty measures
Medicaid	100,960	mandatory	No. Spending depends on the number of eligible applicants.	not applicable	A subset of recipients, mainly children, are eligible based on family income under 133 percent of poverty (pregnant women, infants and children under 6), or 100 percent of poverty (other children)	yes	States apply income rules consistent with their cash welfare programs for families with children, or with SSI. However, states may be apply more liberal deductions to cover pregnant women and children.	yes	Because full benefit is available up to the income ceiling, changes to poverty guidelines could have significant cost and participation impacts.
Food Stamp Program	22,416	mandatory	No. Spending depends on the number of eligible applicants.	not applicable	Family gross income must be below 130 percent of poverty and net income (after deductions) must be below 100 percent of poverty.	yes	The following are subtracted from gross regular money income: a) a standard deduction ($134 in 1996); b) 20 percent of gross earnings; c) dependent care expenses up to $200/month per child under age 2, $175/momth for other children; c) for households with elderly or disabled members, out-of-pocket medical expenses in excess of $35 per month; d) shelter expenses in excess of 50 percent of income remaining after other deductions; e) legally obligated child support payments.	yes	Near income ceiling, benefit is relatively small and participation is low. Additional analysis is needed to size impacts.
Child nutrition programs, including the National School Lunch Program, school breakfasts, summer food service program for children, and child and adult care feeding.	8,796	mandatory	No. Spending depends on the number of eligible applicants.	not applicable	Children with family incomes below 130 percent of the guidelines receive free meals. Those with incomes between 130 percent and 185 percent receive meals at a reduced price.	yes	no	not applicable	Very sensitive: a change in the poverty guidelines that decreased the number of children considered poor would decrease the number of children currently eligible for free meals. A change that increased the number of children considered poor would have the opposite affect.
Title I of the Elementary and Secondary Education Act	7,229	discretionary	Allocation to States based on county-level counts of children aged 5-17 who are: 1) in poor families, based on the most recent decennial census; 2) families receiving TANF or SSI; 3) in certain institutions for neglected and delinquent foster children. Funds are distributed to school districts based on poverty data as well, but States have some flexibility in what they use.	yes	no	not applicable	not applicable	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.

Program	1998 outlays (millions)	BEA category	Poverty thresholds a factor in allocations to states or other grantees?	Is this by statute?	Poverty guidelines a factor in eligibility of families and individuals?	Is this by statute?	Income deductions and adjustments	Is this by statute?	Sensitivity to change in poverty measures
Community Development Block Grant	4,989	discretionary	CDBG allocations to States and entitlement communities are determined by the use of two formulas. Formula A weights share of poor at 50 percent, population at 25 percent, and overcrowded housing at 25 percent. Formula B weights the percentage of housing units built before 1940 at 50 percent, share of poor at 30 percent and population growth lag at 20 percent.	yes	no	not applicable	not applicable	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation.
Rural development programs, including direct and guaranteed loans for: single and multifamily housing, community facilities, water and wastewater treatment facilities, and rural businesses as well as supporting grants for all loan types and rental assistance grants.	Outlays, direct loans, and loan guarantees of 7,706 in 1998	discretionary	A state's share of the poor rural population is a factor in allocation of funds.	yes	no	not applicable	not applicable	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation.
Head Start	4,355	discretionary	Each state's share of poor children up to age 5 is a factor in determining distribution of about one-third of funds.	yes	At least 90 percent of children in a local program must be from poor families, or families receiving cash welfare, or foster care.	yes	no	not applicable	Funding subject to appropriation. Change in *distribution* of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
WIC (Special Supplemental Nutrition Program for Women, Infants, and Children)	3,949	discretionary	Part of funding based on each state's share of pregnant and lactating women, infants, and children up to age 5 with family incomes below 185 percent of poverty.	yes	States may set eligibility levels up to 185 percent of the poverty income guidelines.	yes	no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Job Training Partnership Act	1,670	discretionary	State shares of the poverty population are used to distribute one-third of funds under title II-A Adult, II-C youth, and II-B Summer Jobs programs.	yes	At least 90 percent of participants must be "economically disadvantaged." One criterion is family income below the poverty guidelines.	yes	Unemployment compensation, child support payments, and welfare payments are excluded from countable income.	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.

Program	1998 outlays (millions)	BEA category	Poverty thresholds a factor in allocations to states or other grantees?	Is this by statute?	Poverty guidelines a factor in eligibility of families and individuals?	Is this by statute?	Income deductions and adjustments	Is this by statute?	Sensitivity to change in poverty measures
Child Health Insurance Program block grants	Enacted in 1997. Outlays for 1999, 1,865m	mandatory	Allocation factors include children from families with incomes below 200 percent of poverty.	yes	Beneficiaries must have family income below 200 percent of poverty guidelines.	yes	States may allow deductions from gross income.	yes	Annual state allocations are based on state shares of poor and uninsured children in three years of pooled CPS data. Changes to the thresholds would change the shares, and changes to the guidelines would change eligible population.
HOME (Home Investment Partnership Program)	1,438	discretionary	The formula for determining allocations uses six factors. Four of the six factors take poverty criteria into consideration: 10 percent by vacancy-adjusted rental units where the household head is at or near the poverty level; 20 percent by rental units built before 1950 occupied by poor families; 20 percent by number of poor families; 10 percent by population of a jurisdiction multiplied by a net per capita income that includes a poverty factor.	yes	no	not applicable	not applicable	not applicable	Funding subject to *appropriation*. Change in distribution of poor would change allocation.
LIHEAP (Low Income Home Energy Assistance Program)	1,074	discretionary	Allocations based on share of eligibles. One criterion of low-income is family income below 150 percent of poverty.	yes	Households must have low income. One criterion is 150 percent of poverty *guidelines*.	yes	no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Maternal and Child Health Services block grant	683	discretionary	A state's share of poor children is a factor in allocation.	yes	Grants are to provide access to health care to poor mothers and children.	yes	no	not applicable	Same as LIHEAP
Consolidated Health Centers, formerly Community Health Centers, Migrant Health Centers, health centers for the homeless, and health centers for residents of public housing	815	discretionary	Poor population is a factor in determining that an area is "medically underserved."	no	Free care is available to families with income below poverty.	no	no	not applicable	Same as LIHEAP
Trio programs, including Upward Bound, Student Support Centers, Talent Search, Educational Opportunity Centers, Ronald E. McNair Post-baccalaureate Achievement	463	discretionary	no	not applicable	Participants must have family income below 150 percent of the poverty thresholds.	yes	Eligibility is determined based on "taxable" income, which excludes some government cash and all noncash transfers.	yes	Increase in the number counted as poor would mean a smaller proportion of eligibles could be served at current levels, creating upward pressure on appropriations.
Senior Community Service Employment Program	454	discretionary	no	not applicable	Participants must be at least 55 years of age and have incomes below 125 percent of the poverty guidelines.	yes	no	not applicable	Same as Trio.

Program	1998 outlays (millions)	BEA category	Poverty thresholds a factor in allocations to states or other grantees?	Is this by statute?	Poverty guidelines a factor in eligibility of families and individuals?	Is this by statute?	Income deductions and adjustments	Is this by statute?	Sensitivity to change in poverty measures
Legal Services Corporation	283	discretionary	no	not applicable	Clients must have incomes below 125 percent of the poverty guidelines (150 percent in some cases).	no	No set deductions, but medical expenses, child care, and other work expenses may be taken into account in providing services to families with gross income above the ceiling.		Same as Trio.
Title X Family Planning Services	203	discretionary	Number of poor women is a factor in allocation of funds.	yes	Free services are available to persons with family income below the poverty guidelines.		no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Medicaid grant program for low-income Medicare beneficiaries	200	mandatory	State allocations based on share of Medicare beneficiaries with family incomes from 120-175 percent of poverty thresholds.	yes	Beneficiaries must have family income from 120-175 percent of poverty guidelines.	yes	Deductions from income must be consistent with SSI rules.	yes	Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Emergency Shelter Grants	165	discretionary	Similar to CDBG above.	yes	no	not applicable	not applicable	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation.
Weatherization assistance	112	discretionary	Number of households with incomes below 125 percent of poverty is a factor in allocation.	yes	Recipients must have incomes below 125 percent of poverty guidelines (150 percent under some circumstances), or be recipients of cash welfare.	yes	no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Foster Grandparents	83	discretionary	Number of persons 60 and older with incomes below 100 percent of poverty is a factor in allocation.	yes	Participants must have incomes below 125 percent of the poverty guidelines (with some exceptions).	yes	no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.
Senior Companions	45	discretionary	Number of persons 60 and older with incomes below 100 percent of poverty is a factor in allocation.	yes	Participants must have incomes below 125 percent of the poverty guidelines (with some exceptions).	yes	no	not applicable	Funding subject to appropriation. Change in distribution of poor would change allocation. Increase in number of poor would mean smaller proportion of eligibles could be served at current funding, creating upward pressure on appropriations.

Poverty measurement

Andrea Kane [redacted]

Record Type: Record

To: Elena Kagan/OPD/EOP, Bruce N. Reed/OPD/EOP, Laura Emmett/WHO/EOP

cc: Cynthia A. Rice/OPD/EOP, Christopher C. Jennings/OPD/EOP
Subject: Poverty Measure--next steps

Sally Katzen convened a small meeting on Tuesday with OMB, CEA, and DPC to make sure we're on the same page about guidance to give Commerce and to lay out plan for getting more information about program and budget implications of various poverty measures.

Guidance to Commerce
Kathy Wallman from OMB will meet with Commerce (statistician to statistician) to convey EOP guidance:
1. annual CPI adjustments--make sense
2. geographic adjustment--don't spend a lot of time on it (Census will run various experimental measures which may be interesting, but while the concept of geographic adjustment makes sense, there is considerable concern about how to do it. May just result in massive formula fights and could open door to adjustments in other programs).
3. MOOP--explore adjusting on both the threshhold and resource side
4. benchmarking--run some measures without benchmarking so we have alternatives (*Sally is trying to talk to Bruce to make sure he's comfortable with that*)
Timing: if it takes more time to do these things, OK for schedule to slip 1-2 months (til Feb-March 99).

Analysis of Program/Budget Implications
DPC/NEC process over next several months, with OMB taking lead on analysis. Plan is to set up regular meetings every 2 weeks--next one is Friday 6/26 at 2pm. *Elena, Sally is hoping you'll be able to participate so you might want to let her know what time works best for you on a regular basis.* OMB will start with biggest programs (medicaid, food stamps), but don't ignore smaller ones. Analysis is complex given that we don't know what alternatives are. Need to be careful of unintended consequences and interactions among programs. Keep this an EOP process for now--OMB may need to get data from agencies, but they shouldn't be brought in yet. Sally continues to mention assessing impact through some outreach *(Bruce, I conveyed to Ceci your feeling that we shouldn't but I don't know if this has gotten to Sally yet--I don't think any outreach is imminent, but I'll make sure we discuss this at our next meeting).*

Poverty measurement

Rebecca M. Blank
06/12/98 12:21:28 PM

Record Type: Record

To: Sally Katzen/OPD/EOP, Elena Kagan/OPD/EOP, Joseph J. Minarik/OMB/EOP

cc: Cecilia E. Rouse/OPD/EOP, Andrea Kane/OPD/EOP, Katherine K. Wallman/OMB/EOP
Subject: Follow-up to today's meeting

I thought today's poverty measurement discussion was very good and useful.

Would it be useful to sketch out a good process by which we take up the next set of questions regarding poverty measurement before the next Principal's meeting? Even a short (20 minute) shared conversation about how to move forward might make it possible to give the Principals a set of concrete ideas about next steps.

Becky

SK - good idea

Poverty measurement

Andrea Kane [redacted]

Record Type: Record

To: Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP, Bruce N. Reed/OPD/EOP

cc: Cynthia A. Rice/OPD/EOP
Subject: Follow-up on poverty measure

One of the follow-up actions discussed after the meeting this morning was to have OMB lead a process of working with the agencies to get more/better information on program and budget implications of alternative measures. This will probably take several months. One of the other things we could do in the meantime is start talking to the various interest groups about their views on the NAS recommendation (this would open discussion on the general issue of revising the poverty measure without revealing where we may or may not be headed). I think NEC, OMB, CEA and us will work together first thing next week on other process issues, so any other thoughts from either of you would be welcome!

Poverty measurement

Andrea Kane

Record Type: Record

To: Bruce N. Reed/OPD/EOP
cc: Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP, Cynthia A. Rice/OPD/EOP
bcc:
Subject: Re: Follow-up on poverty measure

OK. I'll communicate this when I get together w/ NEC and CEA staff, but given Gene's interest in hearing Bob Greenstein's views on this, you may want to let him know your views directly.
Bruce N. Reed

Bruce N. Reed
06/12/98 05:52:18 PM

Record Type: Record

To: Andrea Kane/OPD/EOP
cc: Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP, Cynthia A. Rice/OPD/EOP
Subject: Re: Follow-up on poverty measure

Don't talk to the interest groups. There is no point making this political anytime sooner than it has to be. The last thing we need is a Pear story that says, Administration Concludes Millions More in Poverty

Poverty measurement

June 10, 1998

MEMORANDUM FOR EOP PRINCIPAL'S MEETING

FROM: Income and Poverty Measurement Working Group

SUBJECT: Meeting on Income and Poverty Measures

This memorandum outlines a series of policy issues related to revising the Government's income and poverty measures that will be discussed at the Principal's meeting. The attached background paper discusses the more technical issues associated with revising these measures. An appendix sets forth very preliminary information concerning the scope of associated programmatic and budgetary effects.

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*. Because OMB is the statutory arbiter of the "official" poverty measurement methodology, the Census Bureau has asked for advice on the proposed alternative measures to be published. In turn, OMB has sought advice from relevant EOP units. It is important to emphasize that we are only advising the Bureau of the Census. As is always the case, statistical agencies determine what will be published in order to preserve the fact and perception of the integrity of Federal statistics.

There are four questions to be discussed by the Principals: 1) At what pace should the Administration proceed toward the adoption of a new official measure of poverty? 2) Should the Administration initially highlight a preferred option or a range of alternatives? 3) Should the new measure be benchmarked to the most current poverty rate? and 4) If highlighting a preferred option is recommended, what are the components of that preferred option? <u>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 in the next few months.</u>

Background and Implications of the New Poverty Measure

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 discussed in the technical background paper, the NRC panel cautioned that setting the level below which a family is considered poor is more of an art than a science. The panel therefore suggested a range of alternatives and left it to policymakers to determine the most appropriate levels. For instance, the NRC report shows the implications of their recommendations with and without benchmarking (i.e., adjusting the new poverty measure so that the new aggregate poverty rate equals the current aggregate poverty rate). However, the NRC does recommend a specific calculation of the poverty thresholds that 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 18.0% using the new measure.

In addition, regardless of what happens to the level of poverty, the alternative measure recommended by the NRC would substantially alter the demographic composition of the poor. For example, as shown in Table 2, 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.

Issues for Consideration

1. <u>At What Pace Should the Administration Proceed Toward the Adoption of a New Official Measure of Poverty?</u>

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 NRC made its recommendation three years ago and some might question our delay in implementation. In addition, adopting a new poverty measure will allow the Administration to demonstrate the effects of some of its most important policy changes for low-income families, e.g., any new measure will reflect the expansion of the EITC and the expansions of Medicaid for low-income families. The current official poverty measure is unaffected by these changes.

On the other hand, by proceeding more deliberately, 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 moving more deliberately, we may also decrease the chance of a political backlash and of Congressional intervention. In addition, while most of the data needed to implement an NRC-like measure currently exist, there are significant data improvements that could be developed over the next few years. A more deliberate process would allow more time for these data to be developed. 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 Highlight a Preferred Option or a Range of Alternatives?

The Census Bureau plans to publish a small number of policy relevant variations. (There will be extensive appendices in this report that will present a wide variety of poverty definitions, to help demonstrate the statistical and analytical properties of the poverty measure recommended by the NRC.)

The Administration needs to determine whether it will recommend that the Census Bureau highlight a single alternative poverty measure or present several equally in its forthcoming report. The advantages of highlighting a single alternative measure are that it may be less confusing than publishing multiple alternatives, and if the Administration's choice is well-received, it may be easier for it to be adopted as the official poverty measure. In contrast, publishing a range of alternatives has many of the same advantages of proceeding deliberately in the adoption of a new official measure of poverty. For example, this approach would allow us more time to understand fully the analytical, programmatic, and budgetary implications of the alternative measures; would preserve the Administration's options to consider this issue further; and, because the Administration may be less likely to be viewed as prejudging the outcome, may be less likely to lead to Congressional intervention.

3. Should the New Measure Be Benchmarked to the Most Current Poverty Rate?
(This is issue number 1 in the technical background paper.)

Currently the Census Bureau plans to benchmark the alternative measures 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 of who is poor would change). Alternatively, it could publish most new measures without benchmarking, which would result in a higher poverty rate (e.g., 18.0% rather than 13.7% in 1996). The Administration must decide whether to recommend that Census primarily present benchmarked or nonbenchmarked alternative measures.

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 because benchmarking to the current poverty rate does not follow the NRC recommendation (which would result in a higher poverty rate), it would be viewed as an effort to reduce artificially the estimated size of the poor population. While under either of these alternatives the composition of the poor will be altered, benchmarking highlights the changes. (These are more obvious under benchmarking than under the NRC alternative because the alternative raises the poverty rates for everyone.) For example, even though the relative proportion of poor who are Black declines under both alternatives (not shown in Table 2), the estimated Black poverty rate falls with benchmarking but rises with the NRC measure.

4. If Highlighting a Preferred Option is Recommended, 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 an average amount of such 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
Poverty Rates			
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
Thresholds for 2 adults and 2 children (in dollars)			
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 to 1996	NRC Experimental
All persons	**13.7**	**13.7**	**18.0**
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

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

1. <u>Defining Family Resources</u>

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

Four technical issues need to be decided in order to select a new measure of poverty. They are: 1) determining the level of the new poverty threshold; 2) updating the thresholds over time; 3) adjusting for geographic variation; and 4) accounting for medical care expenditures.

1. Determining the level of the poverty threshold.

The NRC panel acknowledges that the actual level at which the poverty threshold (and hence the final poverty rate) is set 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 18.0%, and increase poverty among all subgroups. In addition, (as described further in Option B) this change would alter the composition of the poverty population 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 would become poorer, and nonworking families with substantial in-kind benefits would become less poor. This would have geographic as well as subgroup poverty rate implications. Similarly, both historical and future trends would differ. For instance, the benchmarked measure would be identical to the current rate 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, and therefore provides some limited political cover.

- Generates dollar threshold levels that are quite similar to the current dollar thresholds (although the conceptual measures of 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.

NOTE: The EOP Policy Working Group does not have a recommendation regarding benchmarking.

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 Recalculating 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 Recalculating the Thresholds:

- Because of swings in the business cycle and the fact that the thresholds are affected by changes in the distribution of household expenditures, recalculation could potentially 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.

- There are not enough data to make a credible annual recalculation 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 because it might be perceived as a "new standard," and would also lead to discontinuities in the poverty series in years when updating is done.

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

3. Adjusting 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 existing Administrative poverty guidelines are already adjusted for Alaska and Hawaii.

Cons of Adjusting for Geographic Variation in Cost of Living:

- There is no consensus on how 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 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. Accounting 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 18.0% 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 shows families with unreimbursed medical expenses as less well-off than other families.

(B) An average amount of 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 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.

<u>NOTE: The EOP Policy Working Group recommends that Census incorporate medical care in some way and recognizes that the Census Bureau is 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)).</u>

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

The Congressional Research Service has identified 26 programs that use the poverty guidelines (the simplified version of the thresholds) to determine eligibility at least in part. In addition, 15 programs allocate funds to States or localities using poverty counts as a factor. (A few programs, e.g., WIC and Head Start, are in both sets.) 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).[1]

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

> 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

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[1] 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.

the proportions of working and nonworking families differ. Including geographic variations in housing costs might have similar far-reaching effects. Before introducing a new poverty measure for program purposes, policy makers must determine whether the 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, the poverty threshold defines the upper end of eligibility for about 20 percent of recipients, mostly women, infants, and children. For example, children up to age 6 in families with income below 133 percent of the poverty line (higher at state option) are automatically eligible for Medicaid. Older children are eligible if their family is below 100 percent of the poverty line. In Food Stamps, the poverty measure again defines the upper end of eligibility; but the level of benefits is determined in a separate calculation, and families close to the eligibility limit typically are eligible for only very low (or even zero) benefits. Because very few of these families actually apply for the Food Stamp program, we would expect the effect of changes in this eligibility limit on Food Stamps to be smaller than for Medicaid.

At present, we have only very rough estimates of some of the effects of these changes. We present numbers here that should be viewed as providing merely some sense of the magnitude of the impact of these changes on the Food Stamp and Medicaid programs.

Changes in the poverty thresholds would under reasonable circumstances require changes in the poverty guidelines and in the statutory provisions affecting eligibility for each program. Because of the uncertain political environment and the preliminary nature of these calculations, we offer only a very simplified and therefore unrealistic scenario, which involves no statutory change and only a mechanical change to the guidelines. Note (see Table 1) that if the poverty rate is benchmarked in 1997, the actual thresholds decline significantly. Using these new thresholds in some revised set of poverty guidelines would result in reductions in eligibility and less spending on programs. For the rough estimates presented here, we assume that the new poverty thresholds (against which "full income" -- including in-kind benefits and net of work expenses -- is compared) are adjusted to be comparable to the old poverty thresholds, e.g., we back out in-kind benefits and add back work expenses and taxes. This results in an approximately a 10 percent increase in the poverty guidelines.

Both OMB and HHS agree that the general magnitude of the effect of such a change on program dollars for Food Stamps will be around $100 million, or one-third of one percent of program spending. The impact of Medicaid would be around $1 billion in additional expenditures, which represents about 1 percent of Federal dollars spent on Medicaid, and about $750 million in State spending. Our estimates of the number of people affected by these changes are even more uncertain. One estimate (by OMB) of the Medicaid effects is an increase of full-year enrollees of about 900,000, mostly children. But it is worth emphasizing again that these numbers are only preliminary. More detailed scenarios and models that consider the effects of a range of alternative poverty guidelines need to be completed.

Poverty measurement

Summary and Recommendations

The U.S. measure of poverty is an important social indicator that affects not only public perceptions of well-being in America, but also public policies and programs. The current measure was originally developed in the early 1960s as an indicator of the number and proportion of people with inadequate family incomes for needed consumption of food and other goods and services. At that time, the poverty "line" for a family of four had broad support. Since then, the poverty measure has been widely used for policy formation, program administration, analytical research, and general public understanding.

Like other important indicators, the poverty measure should be evaluated periodically to determine if it is still serving its intended purposes and whether it can be improved. This report of the Panel on Poverty and Family Assistance provides such an evaluation. Our major conclusion is that the current measure needs to be revised: it no longer provides an accurate picture of the differences in the extent of economic poverty among population groups or geographic areas of the country, nor an accurate picture of trends over time. The current measure has remained virtually unchanged over the past 30 years. Yet during that time, there have been marked changes in the nation's economy and society and in public policies that have affected families' economic well-being, which are not reflected in the measure. Improved data, methods, and research knowledge make it possible to improve the current poverty measure.

The panel proposes a new measure that will more accurately identify the poor population today. For example, for 1992, the year for which the panel had data available for analysis, the proposed measure, compared with the current measure, finds a lower poverty rate for people in families on public assistance and a higher poverty rate for people in working families. The differences are largely the result of two factors: first, the proposed measure counts not only cash assistance, but also the value of such in-kind benefits as food stamps; second, the proposed measure counts net earnings, after deductions for taxes and work expenses, instead of gross earnings. Equally important, the proposed measure will more accurately describe changes in the extent of poverty over time that result from new public policies and further social and economic change.

THE CURRENT POVERTY MEASURE: EVALUATION

The current poverty measure has a set of lines, or thresholds, that are compared with families' resources to determine whether or not they are poor. The thresholds differ by the number of adults and children in a family and, for some family types, by the age of the family head. The resources are families' annual before-tax money income.

The current thresholds were originally developed as the cost of a minimum diet times three to allow for expenditures on all other goods and services. The multiplier of three represented the after-tax money income of the average family in 1955 relative to the amount it spent on food. The central threshold for 1963 was about $3,100 for a family of four (two adults and two children). Because the thresholds have been adjusted only for estimated price changes, the 1992 threshold for a two-adult/two-child family of $14,228 represents the same purchasing power as the threshold of $3,100 did 30 years ago.

From the beginning, the poverty measure had weaknesses, and they have become more apparent and consequential because of far-reaching changes in the U.S. society and economy and in government policies.

- First, because of the increased labor force participation of mothers, there are more working families who must pay for child care, but the current measure does not distinguish between the needs of families in which the parents do or do not work outside the home. More generally, the current measure does not distinguish between the needs of workers and nonworkers.
- Second, because of differences in health status and insurance coverage, different population groups face significant variations in medical care costs, but the current measure does not take account of them.
- Third, the thresholds are the same across the nation, although significant price variations across geographic areas exist for such needs as housing.
- Fourth, the family size adjustments in the thresholds are anomalous in many respects, and changing demographic and family characteristics (such as the reduction in average family size) underscore the need to reassess the adjustments.
- Fifth, more broadly, changes in the standard of living call into question the merits of continuing to use the values of the original thresholds updated

health costs
· expansion of in kind gift programs

only for inflation. Historical evidence suggests that poverty thresholds—including those developed according to "expert" notions of minimum needs—follow trends in overall consumption levels. Because of rising living standards in the United States, most approaches for developing poverty thresholds (including the original one) would produce higher thresholds today than the current ones.

- Finally, because the current measure defines family resources as gross money income, it does not reflect the effects of important government policy initiatives that have significantly altered families' disposable income and, hence, their poverty status. Examples are the increase in the Social Security payroll tax, which reduces disposable income for workers, and the growth in the Food Stamp Program, which raises disposable income for beneficiaries. Moreover, the current poverty measure cannot reflect the effects of future policy initiatives that may have consequences for disposable income, such as changes in the financing of health care, further changes in tax policy, and efforts to move welfare recipients into the work force.

The Panel on Poverty and Family Assistance concludes that the poverty measure should be revised to reflect more accurately the trends in poverty over time and the differences in poverty across population groups. Without revision, and in the face of continuing socioeconomic change as well as changes in government policies, the measure will become increasingly unable to inform the public or support research and policy making.

It is not easy to specify an alternative measure. There are several poverty concepts, each with merits and limitations, and there is no scientific basis by which one concept can be indisputably preferred to another. Ultimately, to recommend a particular concept requires judgment as well as science.

Our recommended changes are based on the best scientific evidence available, our best judgment, and three additional criteria. First, a poverty measure should be acceptable and understandable to the public. Second, a poverty measure should be statistically defensible. In this regard, the concepts underlying the thresholds and the definition of resources should be consistent. Third, a poverty measure should be feasible to implement with data that are available or can fairly readily be obtained.

RECOMMENDATION: A NEW POVERTY MEASURE

The official U.S. poverty thresholds should comprise a budget for the three basic categories of food, clothing, shelter (including utilities), and a small additional amount to allow for other needs (e.g., household supplies, personal care, non-work-related transportation). Actual expenditure data should be used to develop a threshold for a reference family of four—two adults and two children. Each year, that threshold should be updated to reflect changes in

Two key points, must be considered together:
(1) defn of family income/resources
(2) threshold

spending on food, clothing, and shelter over the previous 3 years and then adjusted for different family types and geographic areas of the country. The resources of a family or individual that are compared with the appropriate threshold to determine poverty status should be consistently defined to include money and near-money disposable income: that is, resources should include most in-kind benefits and exclude taxes and certain other nondiscretionary expenses (e.g., work expenses).

The procedure for updating the poverty thresholds over time is an integral part of the proposed measure. Poverty measures tend to reflect their time and place. At issue is whether the thresholds ought to be updated for real changes in living standards only occasionally, or on a regular basis, and by how much. We propose a regular updating procedure to maintain the time series of poverty statistics. We also propose a conservative updating procedure that adjusts the thresholds for changes in consumption that are relevant to a poverty budget, rather than for changes in total consumption.

We recommend that the proposed measure be adopted for official government use. We also urge the Statistical Policy Office in the U.S. Office of Management and Budget (which we presume will oversee the consideration and implementation of our recommendations) to establish a mechanism for regular review of the poverty measure on a 10-year cycle. No measure is without flaws, and it is important to have periodic reviews to identify improvements in concepts, methods, and data that may be needed. Altering a key social indicator is always difficult, but if a measure becomes markedly out of step with societal conditions, its utility as a barometer and guide to policy is greatly reduced.

RECOMMENDATION 1.1. **The official U.S. measure of poverty should be revised to reflect more nearly the circumstances of the nation's families and changes in them over time. The revised measure should comprise a set of poverty thresholds and a definition of family resources—for comparison with the thresholds to determine who is in or out of poverty—that are consistent with each other and otherwise statistically defensible. The concepts underlying both the thresholds and the definition of family resources should be broadly acceptable and understandable and operationally feasible.**

RECOMMENDATION 1.2. **On the basis of the criteria in Recommendation 1.1, the poverty measure should have the following characteristics:**

- **The poverty thresholds should represent a budget for food, clothing, shelter (including utilities), and a small additional amount to allow for other needs (e.g., household supplies, personal care, non-work-related transportation).**

- **A threshold for a reference family type should be developed using actual consumer expenditure data and updated annually to reflect changes in expenditures on food, clothing, and shelter over the previous 3 years.**
- **The reference family threshold should be adjusted to reflect the needs of different family types and to reflect geographic differences in housing costs.**
- **Family resources should be defined—consistent with the threshold concept—as the sum of money income from all sources together with the value of near-money benefits (e.g., food stamps) that are available to buy goods and services in the budget, minus expenses that cannot be used to buy these goods and services. Such expenses include income and payroll taxes, child care and other work-related expenses, child support payments to another household, and out-of-pocket medical care costs, including health insurance premiums.**

RECOMMENDATION 1.3. **The U.S. Office of Management and Budget should adopt a revised poverty measure as the official measure for use by the federal government. Appropriate agencies, including the Bureau of the Census and the Bureau of Labor Statistics, should collaborate to produce the new thresholds each year and to implement the revised definition of family resources.**

RECOMMENDATION 1.4. **The Statistical Policy Office of the U.S. Office of Management and Budget should institute a regular review, on a 10-year cycle, of all aspects of the poverty measure: reassessing the procedure for updating the thresholds, the family resource definition, etc. When changes to the measure are implemented on the basis of such a review, concurrent poverty statistics series should be run under both the old and the new measures to facilitate the transition.**

SETTING AND UPDATING THE POVERTY THRESHOLD

We propose that the poverty-level budget for the reference family start with a dollar amount for the sum of three broad categories of basic goods and services—food, clothing, and shelter (including utilities). The amount should be determined from actual Consumer Expenditure Survey (CEX) data as a percentage of median expenditures on food, clothing, and shelter by two-adult/two-child families. This sum should then be increased by a modest additional amount to allow for other necessities. The allowance for "other expenses" is intended to cover such goods and services as personal care, household supplies, and non-work-related transportation. However, it does not include such nondiscretionary expenses as taxes and child care and other costs of working, which are treated as deductions from income (see below).

Once a new reference family threshold is determined, it should be updated each year with more recent expenditure data. The recommended updating procedure will automatically, over time, reflect real changes in the consumption of basic goods and services without the need for a periodic and, inevitably, disruptive readjustment in the level. It represents a middle ground between the approach of simply updating the thresholds for price changes, which ignores changes in living standards over time, and the approach of updating the thresholds for changes in total consumption.

As part of implementing the proposed poverty measure, the current official threshold should be reevaluated in light of the proposed threshold concept, which treats certain expenses as deductions from income rather than as elements of the poverty budget. That evaluation should also consider the real growth in the standard of living that has occurred since the current threshold was first set for 1963.

We do not as a panel recommend a specific threshold with which to initiate the new poverty measure. Ultimately, that decision is a matter of judgment. We do, however, offer our conclusion about a range for that initial threshold. This conclusion represents our own judgment, informed by analysis of thresholds developed from other commonly used concepts, such as expert budgets, relative thresholds expressed as one-half median income or expenditures, and thresholds derived from responses to sample survey questions about the poverty line.

We believe that a reasonable range for the initial threshold for the reference family of two adults and two children is $13,700 to $15,900 (in 1992 dollars). The lower number equals the expenditures for food, clothing, and shelter ($11,950) by families at the 30th percentile of all two-adult/two-children families, with a multiplier of 1.15 for other needed expenditures; the higher number equals the expenditures for food, clothing, and shelter ($12,720) by families at the 35th percentile of all two-adult/two-children families, with a multiplier of 1.25 for other needed expenditures.

RECOMMENDATION 2.1. A poverty threshold with which to initiate a new series of official U.S. poverty statistics should be derived from Consumer Expenditure Survey data for a reference family of four persons (two adults and two children). The procedure should be to specify a percentage of median annual expenditures for such families on the sum of three basic goods and services—food, clothing, and shelter (including utilities)—and apply a specified multiplier to the corresponding dollar level so as to add a small amount for other needs.

RECOMMENDATION 2.2. The new poverty threshold should be updated each year to reflect changes in consumption of the basic goods and services contained in the poverty budget: determine the dollar value that represents the designated percentage of the median level of expenditures on the sum of food, clothing, and shelter for two-adult/two-child families and apply the designated multiplier. To smooth out year-to-year fluctuations and to lag the adjustment to some extent, perform the calculations for each year by averaging the most recent 3 years' worth of data from the Consumer Expenditure Survey, with the data for each of those years brought forward to the current period by using the change in the Consumer Price Index.

RECOMMENDATION 2.3. When the new poverty threshold concept is first implemented and for several years thereafter, the Census Bureau should produce a second set of poverty rates for evaluation purposes by using the new thresholds updated only for price changes (rather than for changes in consumption of the basic goods and services in the poverty budget).

RECOMMENDATION 2.4. As part of implementing a new official U.S. poverty measure, the current threshold level for the reference family of two adults and two children ($14,228 in 1992 dollars) should be reevaluated and a new threshold level established with which to initiate a new series of poverty statistics. That reevaluation should take account of both the new threshold concept and the real growth in consumption that has occurred since the official threshold was first set 30 years ago.

ADJUSTING THE THRESHOLD

Given a poverty threshold for a reference family of two adults and two children, the next step is to develop appropriate thresholds for families with more and fewer members and different numbers of adults and children. We recommend that the reference family threshold be adjusted by means of an "equivalence scale" to determine thresholds for other family types. There is no consensus in the scientific literature on the precise form of an appropriate equivalence scale, although there is agreement on some properties of such a scale and that the scale implicit in the official poverty thresholds is flawed.

We recommend that the scale recognize that children under age 18 on average consume less than adults, but that the scale not further distinguish family members by age or other characteristics. We also recommend that the scale add a decreasing amount for each adult (or adult equivalent) family member to reflect economies of scale available to larger families, such as their ability to buy food and other items in bulk and jointly use many durable goods.

Evidence of cost-of-living differences among geographic areas—such as between metropolitan and nonmetropolitan areas—suggests that the poverty thresholds should be adjusted accordingly, but inadequate data make it difficult to determine appropriate adjustments. As a first and partial step, we recommend that the housing component of the poverty thresholds be indexed to reflect variations in housing costs across the country. This adjustment can be made by analyzing decennial census data with the methodology developed by the U.S. Department of Housing and Urban Development (HUD) to estimate rents for comparable apartments in different localities. We believe the available data support reasonable adjustments for several population size groups of metropolitan areas within each of nine regions of the country. The resulting geographic index should be applied to the housing component of the thresholds. It may also be possible to update the index values each year (rather than at 10-year intervals) by applying the updating methods used by HUD.

We do not recommend adjustments for other budget items at this time because good data for such adjustments are lacking and because the available research suggests that variations in the costs of other budget items are not large. However, more research would be very helpful to develop refined methods and data by which to adjust the poverty thresholds more accurately for geographic cost-of-living differences for housing and other goods and services. One source of improved data could be the area price index program of the Bureau of Labor Statistics (BLS).

Recommendation 3.1. **The four-person (two adult/two child) poverty threshold should be adjusted for other family types by means of an equivalence scale that reflects differences in consumption by adults and children under 18 and economies of scale for larger families. A scale that meets these criteria is the following: children under 18 are treated as consuming 70 percent as much as adults on average; economies of scale are computed by taking the number of adult equivalents in a family (i.e., the number of adults plus 0.70 times the number of children), and then by raising this number to a power of from 0.65 to 0.75.**

Recommendation 3.2. **The poverty thresholds should be adjusted for differences in the cost of housing across geographic areas of the country. Available data from the decennial census permit the development of a reasonable cost-of-housing index for nine regions and, within each region, for several population size categories of metropolitan areas. The index should be applied to the housing portion of the poverty thresholds.**

Recommendation 3.3. **Appropriate agencies should conduct research to determine methods that could be used to update the geographic housing cost component of the poverty thresholds between the decennial censuses.**

Recommendation 3.4. **Appropriate agencies should conduct research to improve the estimation of geographic cost-of-living differences in housing as well as other components of the poverty budget. Agencies should consider improvements to data series, such as the BLS area price indexes, that have the potential to support improved estimates of cost-of-living differences.**

DEFINING FAMILY RESOURCES

It is important that family resources are defined consistently with the threshold concept in any poverty measure. The current measure violates this principle, as has some recent work to investigate alternatives. Examples are measures that add the value of public and private health insurance benefits to families' resources without adjusting the thresholds to account for medical care needs. Such measures should be discontinued.

For consistency, we recommend that family resources be defined as *money and near-money disposable income*. More precisely, the definition should include money income from all sources, as well as the value of such in-kind benefits as food stamps and public housing. It should exclude out-of-pocket medical care expenditures, including health insurance premiums; income and payroll taxes; child care and other work-related expenses; and child support payments to another household. The child care deduction should be capped and apply only to families in which there is no adult at home to provide the care; the deduction for other work expenses should be a flat amount per week worked.

We believe there is widespread agreement among researchers about the appropriateness of such adjustments to income as deducting taxes and work expenses, which are a cost of earning income and cannot be used for consumption, and about adding the value of in-kind benefits that support consumption. The only important area of disagreement concerns medical care benefits.

Trying to account for private and public medical insurance benefits—important as they clearly are—in the same way as in-kind benefits for such items as food and housing would greatly complicate the poverty measure and cloud its interpretation. A chief reason is the wide variation in health care needs among the population: Some people have high medical costs; some have none. Hence, the proposed poverty measure does not include an allowance for medical expenses, either those that might be covered by insurance or paid for out of pocket; for consistency, the proposed resource definition does not add the value of health insurance. Also for consistency, the proposed definition subtracts out-of-pocket medical care expenses from income: even with insurance, many people must pay out of pocket to obtain that insurance or to receive care, and such expenses reduce disposable income.

Although the proposed poverty measure excludes medical care from both the thresholds and resources, it will reflect changes in health care policy that affect disposable income. For example, if changes in health care financing reduce out-of-pocket medical expenditures and thereby free up resources for food, housing, and other consumption, the proposed measure will show a lower poverty rate; the current measure would not show this effect. We also recommend that appropriate agencies develop direct indicators of the extent to which families lack or have inadequate health insurance that puts them at risk of not being able to afford needed treatment. These "medical care risk" measures should be cross-tabulated with but kept separate from the economic poverty measure.

RECOMMENDATION 4.1. **In developing poverty statistics, any significant change in the definition of family resources should be accompanied by a consistent adjustment of the poverty thresholds.**

RECOMMENDATION 4.2. **The definition of family resources for comparison with the appropriate poverty threshold should be disposable money and near-money income. Specifically, resources should be calculated as follows:**

- **estimate gross money income from all public and private sources for a family or unrelated individual (which is income as defined in the current measure);**
- **add the value of near-money nonmedical in-kind benefits, such as food stamps, subsidized housing, school lunches, and home energy assistance;**
- **deduct out-of-pocket medical care expenditures, including health insurance premiums;**
- **deduct income taxes and Social Security payroll taxes;**
- **for families in which there is no nonworking parent, deduct actual child care costs, per week worked, not to exceed the earnings of the parent with the lower earnings or a cap that is adjusted annually for inflation;**
- **for each working adult, deduct a flat amount per week worked (adjusted annually for inflation and not to exceed earnings) to account for work-related transportation and miscellaneous expenses; and**
- **deduct child support payments from the income of the payer.**

RECOMMENDATION 4.3. **Appropriate agencies should work to develop one or more "medical care risk" indexes that measure the economic risk to families and individuals of having no or inadequate health insurance coverage. However, such indexes should be kept separate from the measure of economic poverty.**

EFFECTS

To consider the effects of our proposed measure, we estimated poverty rates under both the current and the proposed measures with data from the March 1993 Current Population Survey (CPS), supplemented with data from the Survey of Income and Program Participation (SIPP) and other sources.

In one set of comparisons, we kept the overall poverty rate the same for both measures—14.5 percent in 1992. The results show important distributional effects on the makeup of the poverty population under the proposed measure: most strikingly, higher poverty rates for families with one or more workers and for families that lack health insurance coverage and lower rates for families that receive public assistance. The results also show higher poverty rates in the Northeast and West and lower rates in the South and, to a lesser extent, in the Midwest.

In another set of comparisons, we used the midpoint of our suggested range for the two-adult/two-child family threshold—$14,800. With this threshold, a scale economy factor of 0.75, and the other features of our measure, the poverty rate increased from 14.5 percent to 18.1 percent; with a scale economy factor of 0.65, the poverty rate increased to 19.0 percent. The changes in the resource definition increased the rate more than the changes in the thresholds. If we had been able to use SIPP data exclusively, we estimate that the rate would have increased less, from 14.5 percent to 15 or 16 percent (depending on the scale economy factor), because SIPP obtains more complete income reporting for lower income people than does the March CPS.

NEEDED DATA

Full and accurate implementation of the proposed poverty measure will require changes and improvements in data sources. We recommend that SIPP become the source of official poverty statistics in place of the March CPS. SIPP asks more relevant questions than the March CPS and obtains income data of higher quality. Also, because SIPP is an income survey rather than a supplement to a labor force survey, it is better able to satisfy the data requirements for an improved measure of poverty, both now and in the future.

Because analysis with other surveys (including the March CPS) and with the decennial census often requires indicators of poverty status, we encourage research on the estimation of disposable income from these data sources.

Finally, with regard to expenditure data, we support a review of the Consumer Expenditure Survey to identify changes, especially larger sample sizes, that would improve its usefulness for poverty measurement and other important analyses of consumption, income, and savings.

RECOMMENDATION 5.1. The Survey of Income and Program Participation should become the basis of official U.S. income and poverty statistics in place of the March income supplement to the Current Population Survey. Decisions about the SIPP design and questionnaire should take account of the data requirements for producing reliable time series of poverty statistics using the proposed definition of family resources (money and near-money income minus certain expenditures). Priority should be accorded to methodological research for SIPP that is relevant for improved poverty measurement. A particularly important problem to address is population undercoverage, particularly of low-income minority groups.

RECOMMENDATION 5.2. To facilitate the transition to SIPP, the Census Bureau should produce concurrent time series of poverty rates from both SIPP and the March CPS by using the proposed revised threshold concept and updating procedure and the proposed definition of family resources as disposable income. The concurrent series should be developed starting with 1984, when SIPP was first introduced.

RECOMMENDATION 5.3. The Census Bureau should routinely issue public-use files from both SIPP and the March CPS that include the Bureau's best estimate of disposable income and its components (taxes, in-kind benefits, child care expenses, etc.) so that researchers can obtain poverty rates consistent with the new threshold concept from either survey.

RECOMMENDATION 5.4. Appropriate agencies should conduct research on methods to develop poverty estimates from household surveys with limited income information that are comparable to the estimates that would be obtained from a fully implemented disposable income definition of family resources.

RECOMMENDATION 5.5. Appropriate agencies should conduct research on methods to construct small-area poverty estimates from the limited information in the decennial census that are comparable with the estimates that would be obtained under a fully implemented disposable income concept. In addition, serious consideration should be given to adding one or two questions to the decennial census to assist in the development of comparable estimates.

RECOMMENDATION 5.6. The Bureau of Labor Statistics should undertake a comprehensive review of the Consumer Expenditure Survey to assess the costs and benefits of changes to the survey design, questionnaire, sample size, and other features that could improve the quality and usefulness of the data. The review should consider ways to improve the CEX for the purpose of developing poverty thresholds, for making it possible at a future date to measure poverty on the basis of a consumption or expenditure concept of family resources, and for other analytic purposes related to the measurement of consumption, income, and savings.

OTHER ISSUES IN POVERTY MEASUREMENT

RECOMMENDATION 6.1. The official poverty measure should continue to be derived on an annual basis. Appropriate agencies should develop poverty measures for periods that are shorter and longer than a year, with data from SIPP and the Panel Study of Income Dynamics, for such purposes as program evaluation. Such measures may require the inclusion of asset values in the family resource definition.

RECOMMENDATION 6.2. The official measure of poverty should continue to use families and unrelated individuals as the units of analysis for which thresholds are defined and resources aggregated. The definition of "family" should be broadened for purposes of poverty measurement to include cohabiting couples.

RECOMMENDATION 6.3. Appropriate agencies should conduct research on the extent of resource sharing among roommates and other household and family members to determine if the definition of the unit of analysis for the poverty measure should be modified in the future.

RECOMMENDATION 6.4. In addition to the basic poverty counts and ratios for the total population and groups—the number and proportion of poor people—the official poverty series should provide statistics on the average income and distribution of income for the poor. The count and other statistics should also be published for poverty measures in which family resources are defined net of government taxes and transfers, such as a measure that defines income in before-tax terms, a measure that excludes means-tested government benefits from income, and a measure that excludes all government benefits from income. Such measures can help assess the effects of government taxes and transfers on poverty.

RELATING THE POVERTY MEASURE TO ASSISTANCE PROGRAMS

More than 25 government programs that provided benefits and services to low-income families in 1994—such as food stamps, Head Start, Legal Services, Medicaid—linked their need standard for determining eligibility for some or all applicants to the U.S. Department of Health and Human Services poverty guidelines, which are derived from the official poverty thresholds. The use of the proposed measure would improve the targeting of benefits to needy families, and we encourage program agencies to consider adopting it as an eligibility criterion in place of the current measure. In doing so, program agencies should consider whether the proposed measure may need to be modified to better serve program objectives. For example, the proposed definition of family resources may add administrative burdens in programs that currently obtain crude measures of applicants' gross money income to assess eligibility because more information is needed to determine applicants' disposable income. In these instances, it may be preferable to implement a less detailed definition.

Program agencies should also consider the implications of the recommended method for updating the poverty thresholds. There may be consequences for program caseloads or waiting lines and costs if, over time, thresholds developed under that method rise at a faster rate than thresholds that are simply adjusted for inflation. With constrained budgets, the relationship of program need standards to the poverty thresholds may need periodic adjustment.

In the Aid to Families with Dependent Children (AFDC) program, for which we were asked to consider issues of a national minimum benefit standard, federal law currently defines "countable income." The definition is similar in concept, if not in specifics, to the proposed disposable income definition of family resources. However, a unique feature of AFDC is that the states establish need standards for eligibility but are allowed to and often do pay benefits below that standard. Most state need standards and, even more so, most state benefit standards are considerably below the poverty thresholds, and the level varies widely across states—more widely than can be explained by differences in living costs.

Currently, more than a dozen states link their need standard in some way to the current poverty guidelines. Again, the proposed measure would be an improvement for this purpose. We encourage the states to consider the use of the proposed measure, which includes an adjustment to the thresholds for geographic differences in housing costs, in setting their need standard for AFDC.

It would also seem reasonable to consider the thresholds that are developed under the proposed measure as a goal or benchmark in any debate about

state or federal AFDC benefit standards. However, many factors properly enter into a determination of program benefit levels, and the result may well be standards that differ from those that make sense for a statistical measure of poverty. Such factors include constraints on available funding, the desire to target benefits to particular population groups, interactions among programs, and the desire to provide incentives to participants and potential participants, such as incentives to prefer work over welfare. Ultimately, the determination of appropriate assistance program benefit standards involves political judgments about the appropriate balance of competing program objectives within the constraints of scarce resources. We hope, by reviewing the issues, to help clarify the policy debate.

> RECOMMENDATION 7.1. **Agencies responsible for federal assistance programs that use the poverty guidelines derived from the official poverty thresholds (or a multiple) to determine eligibility for benefits and services should consider the use of the panel's proposed measure. In their assessment, agencies should determine whether it may be necessary to modify the measure—for example, through a simpler definition of family resources or by linking eligibility less closely to the poverty thresholds because of possible budgetary constraints—to better serve program objectives.**

> RECOMMENDATION 8.1. **The states should consider linking their need standard for the Aid to Families with Dependent Children program to the panel's proposed poverty measure and whether it may be necessary to modify this measure to better serve program objectives.**

Poverty measurement

June 8, 1998

DRAFT BACKGROUND MEMORANDUM FOR EOP PRINCIPAL'S MEETING

FROM: ~~REBECCA BLANK~~
~~ELENA KAGAN~~
~~SALLY KATZEN~~
~~JOE MINARIK~~

POV. MEASUREMENT WORKING GROUP

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 (because OMB, 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

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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.

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- 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)?

part

- 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 be equally reported by Census, should one of them account for medical expenditures using a different methodology?

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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?

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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?

~~Note program changes~~
~~distrib effects~~

In considering these questions, the Principals should be aware of the distributional consequences of changing the poverty measure in the way ~~on~~ the NRC recommends, which are set out in Table 2 to the technical background paper.

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 <u>family resources</u> and for defining the <u>threshold</u> resource level below which a family is considered poor.

1. <u>Defining Family Resources</u>

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.

<u>NOTE: The EOP Policy Working Group recommends against geographic price adjustments.</u>

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
Poverty Rates			
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
Thresholds for 2 adults and 2 children (in dollars)			
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 to 1996	NRC Experimental
All persons	**13.7**	**13.7**	**18.0**
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).[1]

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

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[1]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.

new property measure for program purposes, policy makers must determine whether the 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.

WR - poverty measurement

Andrea Kane [redacted]

Record Type: Record

To: Rebecca M. Blank/CEA/EOP

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

Subject: Re: Draft options memo for Principal's meeting on poverty measurement

This is a very helpful summary of the issues. I had a few relatively minor comments.

1. 3rd sentence under Background: "IT IS" should be lower case.

2. Under Options section 1.B. (Benchmarking), should the sentence in parens say "The faster fall is largely due to the *expansion* in the EITC"?

3. Also under Options section 1, is there anything we can see about whether benchmarking ever allows us to "catch up" with the "real" (higher) poverty rate? In other words, if this results in a lower poverty rate than the NAS measure would in order to ease the transition to new methodology, does this permanently hold down the rate?

4. Also under Options section 1, any Deputies recommendation?

5. Attachment 1 (from HHS): Pat, does the 2nd sentence of the 4th paragraph where you talk about Medicaid, accurately describe the "delinking" in PRWORA? Technically, isn't link back to AFDC not TANF? Is it true that no states use poverty guidelines in defining TANF eligibility?

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WR-poverty measurement

PATRICIA RUGGLES <PRUGGLES @ OSASPE.DHHS.GOV>
06/01/98 10:43:57 AM

Record Type: Record

To: Rebecca M. Blank/CEA/EOP, Andrea Kane/OPD/EOP

cc: See the distribution list at the bottom of this message
Subject: Re: Draft options memo for Principal's meeting on poverty measurement -Reply

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Andrea--

You're right that technically Medicaid eligibility under PRWORA is linked back to whether or not the recipient would have been covered under the State's AFDC rules, not whether they are actually covered under the TANF rules, which may be more generous. In practice, however, all States currently make all TANF recipients categorically eligible for Medicaid, as far as I have been able to find out. I am checking further to be sure there are no exceptions.

Also, TANF eligiblity in all States is linked to specific dollar cutoffs for both the need standard and the payment standard. These dollar amounts are set by the State and as far as I have been able to determine none of the States uses the poverty guidelines in setting these amounts. In any case, there is no automatic linkage between these amounts and the poverty guidelines--nobody's payment standards change automatically when the guidelines change, for example.

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WR - poverty measure

Andrea Kane [redacted]

Record Type: Record

To: Elena Kagan/OPD/EOP

cc: Cynthia A. Rice/OPD/EOP, Laura Emmett/WHO/EOP
Subject: Update on Measuring Income and Poverty

I've gone to two policy group meetings on revising the poverty measure chaired by Becky Blank and wanted to let you know where things stand. The first meeting just established the group and an agenda. The second provided an overview of the issue: why do we need a new measure, how might it differ from the current measure, and what are the key decision points in developing a new measure. The purpose of the group is to identify and resolve policy issues that arise as Census works toward publishing alternative measures of poverty. This effort is based largely on the recommendations from the Nt'l Academy report, although there are some areas where the report did not make specific proposals.

Policy issues are likely to surface around: benchmarking the poverty threshold, geographic adjustments, adjusting the measure over time, and treatment of medical expenditures and benefits. Anticipated process/timeframes include: giving Census initial policy and technical guidance by June so they can release several alternative measures on an experimental basis, along with an analysis of their impacts, next Fall in order to get both technical and policy feedback. The policy group would continue to stay involved to assess the reaction, review the broad parameters of a revised measure, and consider policy and legislative implications. This would then feed into development of a revised measure to be implemented in the fall of 1999

The policy group includes CEA, NEC, OMB, DPC, and HHS. It will meet every two weeks through the end of May. I'll plan to attend these meetings and alert you as big issues arise. Please let me know if there are particular issues you are concerned about. Meetings are Mondays from 3:30-5 in Room 324 on 3/30, 4/13, 4/27, 5/11 and 5/26 (Tuesday due to holiday) if you want to attend. In addition, a technical group comprised of experts in the various agencies, chaired by Katherine Wallman from OMB, continues to work through a variety of issues.