

Housing and Poverty Thresholds: Different Potions for Different Notions

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Problems with Spending

- A single spending-based threshold
 - Owners with mortgages spending behavior to extrapolate to all through the use of equivalence scales
 - Different spending needs based on housing status
 - E.g., own a home outright or have low mortgages have more money to spend on other basic needs (such as food and clothing) than either renters or people with large mortgages
 - Same true for renters with subsidies and those living in public housing and rent-controlled units
- How to account for different spending needs of owners and renters in a poverty measure?

Drivers of Recent Research

- Measuring American Poverty Act of 2009 (MAP)
 - Signed and introduced to the House of Representatives June 17 by Congressman McDermott, amendment to Social Security Act
 - 120% of 33rd percentile of annual FCSU consumption expenditures
 - Calculation of the threshold “shall be made separately” for
 - Families who own their primary residence and do not have a mortgage secured by the residence
 - All other families such that they can “purchase similar quality shelter”
- Supplemental Poverty Measure 2010 (SPM)
 - Released to public from Commerce and OMB, March 2, 1020
 - “Observations from Interagency Technical Working Group on Developing a Supplemental Poverty Measure”
 - 120% of 33rd percentile of annual FCSU expenditures
 - Accounting for housing status
 - Owners without mortgages
 - Owners with mortgages
 - Renters

Focus on Shelter

- Significant number of low-income families
 - Own a home without a mortgage
 - Have quite low shelter expense requirements
 - Not taking this into account may overstate their poverty rates
- Increasing importance of shelter in poverty threshold
 - Shelter expenditures: 31 % in 1996
 - 35 % in 2008 (shelter + utilities ~ 50%)

Previous Threshold Specifications

$$(NAS) \text{ BLS Threshold} = \frac{(1.15 * 0.78 * \text{Median}) + (1.25 * 0.83 * \text{Median})}{2} \quad (1)$$

- Update by changes in median FCSU each year
- Assumption: percentages of the median are held constant at the values that were used by the Panel for the 1992 thresholds

$$SPM \text{ and MAP Threshold} = 1.20 * 33^{\text{rd}} \text{ percentile} \quad (2)$$

- Update by changes in 33rd percentile of FCSU expenditures each year
- Assumption: 33rd percentile changes each year

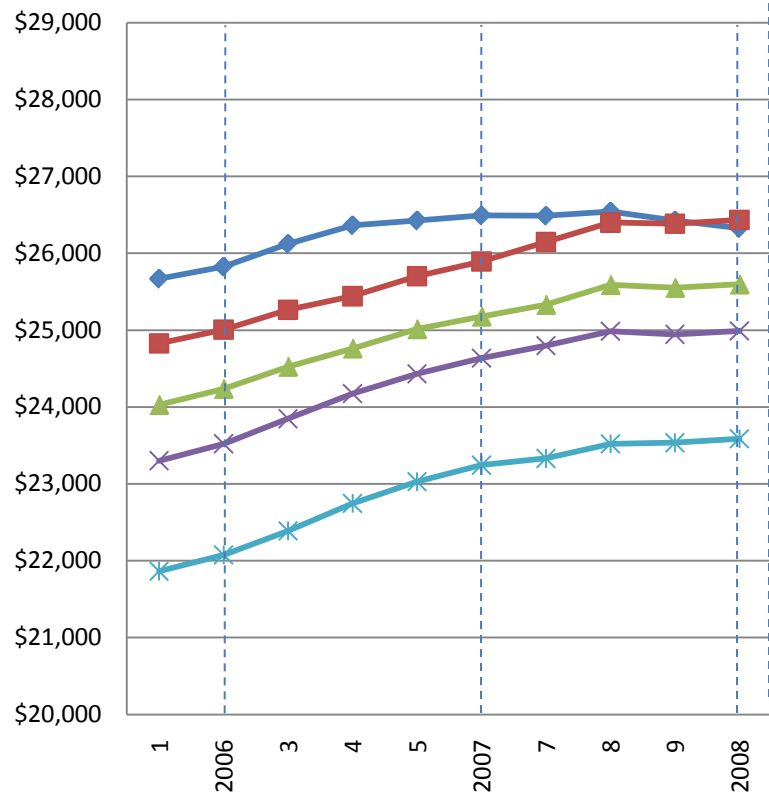
FCSU Spending

- CE-Defined
 - Food (includes Food Stamps value)
 - Clothing
 - Utilities (includes telephone)
 - For renters, shelter expenditures
 - For homeowners, non-vacation shelter expenditures that include
 - Mortgage interest payments
 - Prepayment penalties
 - Property taxes
 - Maintenance, repairs, insurance and other related expenditures
- Out-of-pocket
 - CE-defined + mortgage principal repayments

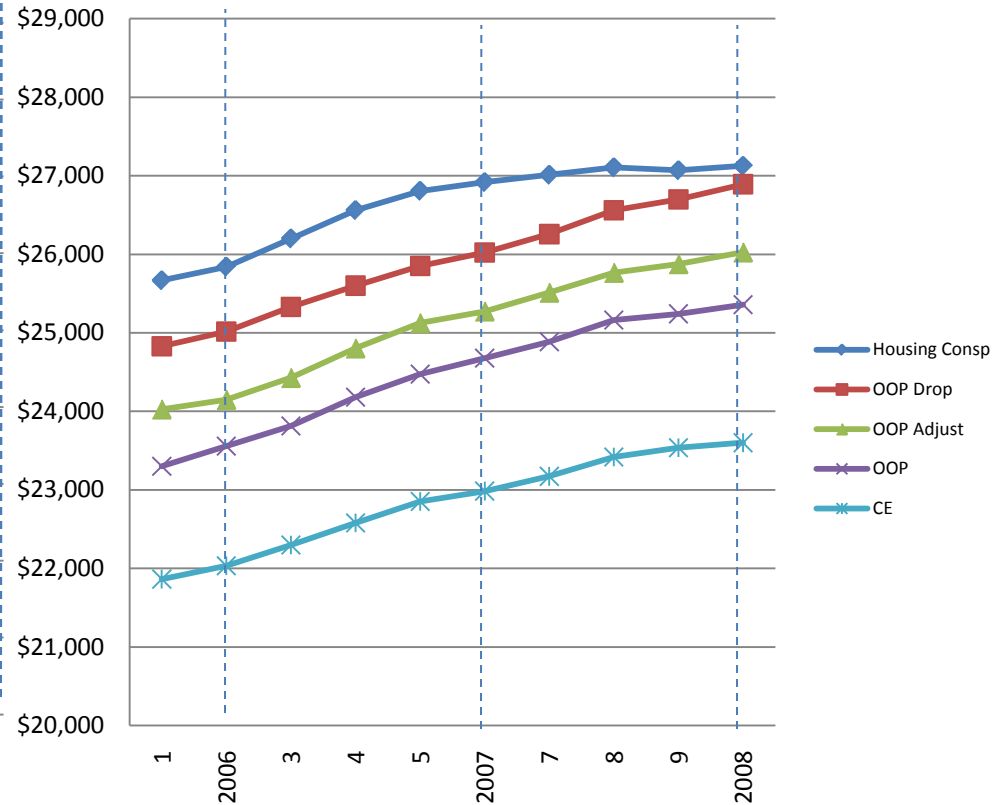
Thresholds Using 33rd Percentile Updated by Change in Median or 33rd Percentile

Sample: Reference Families Only

Updated by Median



Updated by 33rd Percentile



Reference Family Thresholds in December 2006\$

Shelter in SPM Thresholds

- Three FCSU thresholds
 - Owners with mortgages
 - Owners without mortgages
 - Renters
- Apply “adjustment factors” to the shelter component of FCSU to reflect relative expenditures of housing groups
- To start:
 - Estimate shelter expenses for each of these three groups in a range around the 33rd percentile of FCSU for the estimation sample, S1, S2, S3
 - Create three thresholds by replacing the “S” component at the 33rd percentile with S1, S2, and S3

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