Current Population Reports

Household Economic Studies

Dynamics of Economic Well-Being: Income, 1993 to 1994

Moving Up and Down the Income Ladder

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Introduction

From year to year, the economic well–being of many Americans changes considerably, even though summary measures, such as median income, do not vary much in real terms from one year to the next.

One measure of economic well–being is the income–to–poverty ratio—called the income ratio here—that is, the ratio of an individual's annual family income to the family's poverty threshold.[1]

Between 1993 and 1994, roughly three–fourths of the population saw their economic well–being fluctuate by 5 percent or more. As the data in Figure 1 show, this degree of fluctuation has been fairly constant over the past 10 years. Conversely, from year to year, fewer than a quarter of all Americans had stable income ratios (that is, ratios that changed less than 5 percent from year to year). Over the course of a lifetime, the average American can expect to experience a number of such shifts in economic well–being.

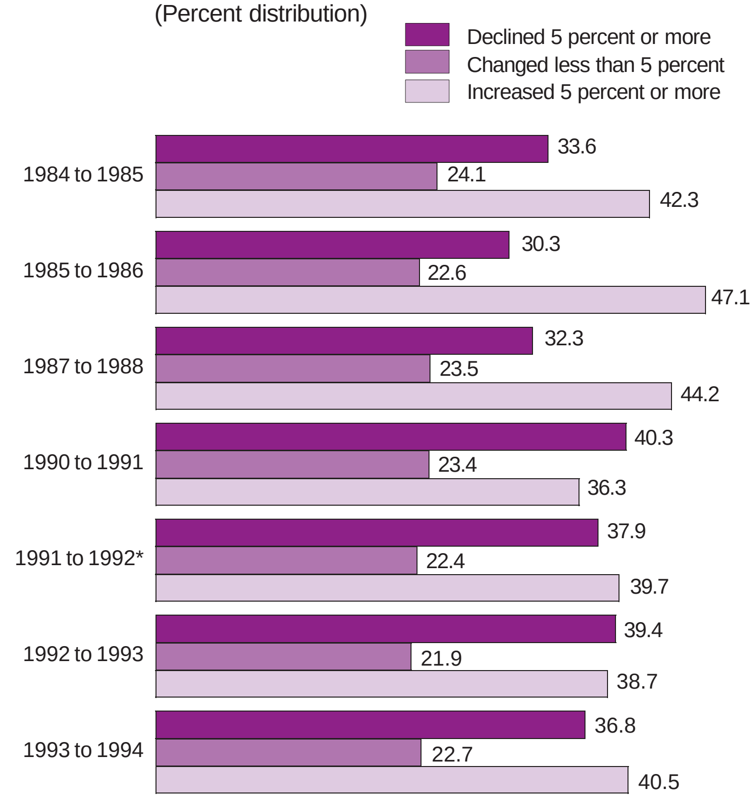
Incomes rose less often in the 1990s than in the 1980s.

Figure 1 depicts, for seven 2 year periods beginning in 1984, the frequency with which income ratios rose or dropped (5 percent or more) or remained about the same (moved less than 5 percent) from one year to the next. Based on those periods, the percentage of people whose income ratios grew from year to year was smaller in the 1990s than in the 1980s, reaching its minimum during the 1990-91 recession. Conversely, the proportion of people who experienced declines in their income ratios from one year to the next is larger in the present decade than in the last. In the 1993-94 period, as in the other pairs of 1990s years, the difference between the proportion of income ratio drops and the proportion of income ratio increases was no greater than four percentage points.

Variations in personal and family circumstances can affect economic well–being.

The state of the economy is a notable factor in determining which way income fluctuations go, but it is not the only factor. Changes in individual circumstances also are

Figure 1.
Year-to-Year Changes in Income-to-Poverty Ratio of Persons
(Percent distribution)



* Revised.
Note: Longitudinal data are not available for 1986-87, 1988-89, and 1989-90.

Source: U.S. Bureau of the Census, Survey of Income and Program Participation.

[1]The income ratio standardizes economic well-being through the use of poverty thresholds. A poverty threshold is an amount of annual family income below which a family is deemed to be in poverty. Poverty thresholds vary by family size and composition and are updated each year to adjust for inflation. For instance, in 1994, the poverty threshold for a three-person family was $11,817. Hence, for a family of three with an income of $20,000 that year, the income-to-poverty ratio, or income ratio, would be 1.69 (i.e., $20,000/$11,817). Poverty thresholds are also calculated for unrelated individuals, such as one-person households.

salient factors affecting economic well–being. Table 1 shows that people had a good chance of having their income ratios rise (5 percent or more) from one year to the next if:

- They began to work full–time, year–round (62 percent)
- The number of workers in their household increased (70 percent)
- They married (65 percent) or became part of a married-couple family (74 percent)
- The number of adults in their household went up (65 percent) or the number of children dropped (59 percent)

Conversely, most people saw their income ratios decline significantly when they ceased to:

- Be married (61 percent); or
- Work full-time year-round (59 percent)

Table 1.
Change in Their Income-to-Poverty Ratios of People by Selected Characteristics: 1993 to 1994

Characteristic	Total (thousands)	Declined 5 percent or more	Changed less than 5 percent	Increased 5 percent or more
All persons	246,156	36.8	22.7	40.5
WORK EXPERIENCE (Persons 18 and over)				
Year-round, full-time in 1993 to not year-round, full-time in 1994	8,519	59.4	14.5	26.2
Not year-round, full-time in 1993 to year-round, full-time in 1994	11,493	24.3	13.4	62.3
NUMBER OF WORKERS IN HOUSEHOLD				
Fewer workers in 1994 than 1993	25,418	69.1	10.3	20.6
More workers in 1994 than 1993	27,843	20.1	9.7	70.2
MARITAL STATUS (Persons 18 and over)				
From married in 1993 to other in 1994	2,287	61.0	7.7	31.3
From other marital status in 1993 to married in 1994	3,497	25.6	9.3	65.1
FAMILY STATUS				
From married-couple family in 1993 to other family type in 1994	3,273	69.7	6.4	23.9
From other family type in 1993 to married-couple family in 1994	2,449	20.9	4.9	74.2
HOUSEHOLD COMPOSITION				
No change in number of adults:				
Fewer children in 1994 than 1993	4,476	29.2	11.6	59.2
More children in 1994 than 1993	10,464	64.8	12.9	22.2
No change in number of children:				
Fewer adults in 1994 than 1993	12,310	59.3	11.3	29.5
More adults in 1994 than 1993	7,712	22.3	12.6	65.1
INCOME-TO-POVERTY RATIO IN 1993				
Less than 1.00	31,840	26.1	21.2	52.7
1.00 to 1.99	49,137	33.7	20.7	45.6
2.00 to 3.99	89,111	35.7	22.9	41.5
4.00 or more	76,067	44.5	24.3	31.1
GENDER				
Women	126,632	37.0	23.2	39.8
Men	119,523	36.6	22.1	41.3
RACE AND HISPANIC ORIGIN				
White, not Hispanic	184,163	36.8	23.1	40.1
African-American	31,316	37.1	22.0	40.9
Hispanic[1]	23,950	34.7	20.7	44.7
AGE (in 1993)				
Under 18 years	65,394	35.5	20.5	44.0
18 to 24 years	23,694	38.5	16.6	44.9
25 to 44 years	80,850	36.5	20.9	42.7
45 to 64 years	48,743	38.7	23.0	38.4
65 years and over	27,474	36.0	37.8	26.2

[1]Persons of Hispanic origin may be of any race.
Source: U.S. Bureau of the Census, Survey of Income and Program Participation.

Furthermore, where one stands on the income ladder correlates with the likelihood of improving or reducing his/her economic well-being. The lower one's current income ratio is, the more likely it will rise the following year, and the less likely it will fall. For instance, Table 1 shows that among those whose 1993 income ratios were less than 1.00 (i.e., people in poverty), 53 percent saw their income ratios rise the following year, while just 26 percent experienced declines. On the other hand, among those at the top of the ladder (people with income ratios of 4.00 or more), 45 percent experienced decreases in 1994, while only 31 percent posted gains.

Age, gender, race, and ethnicity make little difference in the likelihood of income gains and losses.

While there are considerable disparities in income distribution by gender, race, and Hispanic origin, Table 1 indicates that differences in these characteristics are not good predictors of whether one's economic well-being next year will be better or worse. With regard to these variables, the 1993–94 findings are similar to findings for previous pairs of years in the present decade.

During the 1990s, year-to-year changes in income ratios among women and men closely resembled one another, with differences never being greater than 2 percentage points. As indicated in Table 1, a slightly larger proportion of women experienced income gains from 1993 to 1994, but this was not the case for previous years in the decade.

Also, in the first year of the present decade (including 1993-94), differences in year-to-year income ratio changes for White and African-Americans never exceeded 5 percentage points (for any specific pair of years). Table 1 shows that Hispanics had a slight (statistically significant) edge, compared with non-Hispanics, in income increases for 1993-94; but this was not so for previous years in the decade.

As Table 1 demonstrates, among the various age cohorts, the only large difference in income changes occurred between the elderly (those 65 years of age and over), on the one hand, and those in the younger age brackets, on the other. As was the case for previous years, the elderly had the highest proportion experiencing little or no change in income and also the lowest percentage with income gains from one year to the next.

Shifts in income sources affect economic well–being.

Table 2 shows that the mere appearance or disappearance of a particular income source is often an indicator of improvement or decline in economic well–being from one year to the next.

As would be expected, the likelihood of income ratios increasing was much greater when someone in the family began bringing in earnings. Conversely, an income decline was much more probable when a family ceased to have anyone with earnings.

Receipt of unemployment benefits sometimes occurs when one's earnings disappear. Hence, income drops were more likely for a year when people start getting unemployment checks; and, vice versa, income gains occurred more frequently during a year when people stop getting unemployment compensation.

Loss of retirement and disability benefits, such as pensions, often hurts people's economic well-being. Those who had lost such benefits (during the year) were more likely to experience income ratio reductions than individuals in families which began receiving such benefits (during a particular year).

Means–tested benefits are designed to aid families with the lowest incomes. Thus, income losses are expected to occur more often in those years when people begin getting such benefits. Such was indeed the case for means–tested benefits in general and for food stamps and medicaid in particular.

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Source and Accuracy of Estimates

This report is one of a series that presents information of current policy interest. All statistics are subject to sampling variability, as well as survey design flaws, respondent classification errors, and data processing mistakes. The Census Bureau has taken steps to minimize errors, and analytic statements have been tested and meet statistical standards. However, because of methodological differences, use caution when comparing these data with data from other sources. For information on the source of data and the accuracy of estimates, including the use and computation of standard errors, see the "Source and Accuracy Statement for the 1993 SIPP Longitudinal Panel File."

See also the SIPP web site: http://www.sipp.census.gov/sipp/

Table 2.
Change in Income-to-Poverty Ratios of People by Selected Sources of Family Income: 1993 to 1994

Source of income	Total (thousands)	Declined 5 percent or more	Changed less than 5 percent	Increased 5 percent or more
EARNINGS				
Earnings in 1994 but not 1993	3,956	16.4	10.3	73.3
Earnings in 1993 but not 1994	5,221	76.5	9.6	13.9
ASSET INCOME				
Income from assets in 1994 but not 1993	9,513	26.8	13.3	59.9
Income from assets in 1993 but not 1994	11,563	48.4	14.6	37.0
UNEMPLOYMENT COMPENSATION OR BENEFITS				
Benefits in 1994 but not 1993	10,349	48.5	14.0	37.5
Benefits in 1993 but not 1994	17,330	36.3	11.2	52.4
PENSION AND PRIVATE DISABILITY INCOME[1]				
Benefits in 1994 but not 1993	8,718	40.1	14.5	45.4
Benefits in 1993 but not 1994	7,677	51.2	13.7	35.1
SOCIAL SECURITY (AND RAILROAD RETIREMENT)				
Benefits in 1994 but not 1993	5,405	39.9	12.1	48.0
Benefits in 1993 but not 1994	3,139	54.0	8.9	37.0
MEDICAID				
Covered in 1994 but not 1993	8,666	49.2	15.4	35.4
Covered in 1993 but not 1994	7,914	32.0	13.4	54.6
AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC) AND GENERAL ASSISTANCE				
Aid in 1994 but not 1993	3,553	47.7	8.2	44.1
Aid in 1993 but not 1994	3,846	32.0	8.2	59.8
SUPPLEMENTAL SECURITY INCOME (SSI)				
Aid in 1994 but not 1993	2,507	36.0	6.7	57.3
Aid in 1993 but not 1994	2,046	52.4	6.8	40.8
FOOD STAMPS				
Stamps in 1994 but not 1993	4,871	57.9	11.9	30.2
Stamps in 1993 but not 1994	5,911	26.9	10.3	62.8
MEAN-TESTED BENEFITS[2]				
Benefits in 1994 but not 1993	9,260	47.9	19.1	33.1
Benefits in 1993 but not 1994	9,356	34.3	12.5	53.2

[1]Pension and private disability income includes: retirement and life insurance payments, pensions, annuities, and compensation for death, disability, and illness. Not included are Social Security, Railroad Retirement, and Supplemental Security Income (SSI).

[2]Means-tested benefits include: Aid to Families With Dependent Children (AFDC), General Assistance, Supplemental Security Income (SSI), Medicaid, food stamps, and Federal or State rent assistance.

Source: U.S. Bureau of the Census, Survey of Income and Program Participation.