The CEO Poverty Measure, 2005-2008

A Working Paper by the NYC Center for Economic Opportunity

Executive Summary

March 2010

Center for Economic Opportunity

Michael R. Bloomberg
Mayor

EXECUTIVE SUMMARY

Measuring poverty requires two fundamental judgments. The first is where to draw the line between the poor and the rest of society, to decide, "how much income is just enough"? The second judgment is to decide, "just enough of what"? What resources should be counted as income to determine whether a family has attained the standard of living represented by the poverty line?

New York City Mayor Michael R. Bloomberg directed the Center for Economic Opportunity (CEO) to develop an alternative poverty measure because the current, official measure's answers to these questions are sorely out of date. The official poverty line was developed in the mid-1960s and rested on the belief that families typically spend one-third of their income on food. The cost of a minimally adequate diet was simply multiplied by three to establish the initial level of the threshold. Since that time, the base year poverty line has been adjusted annually by the growth in the Consumer Price Index. Over four decades later, this threshold no longer represents contemporary spending patterns or takes account of advances in the nation's standard of living. It also ignores differences in the cost of living across the country, an issue of obvious relevance to measuring poverty in New York City.

The official measure's answer to "enough of what?" is also dated. The only family resource it counts is pre-tax cash. That includes wages, salaries, and some of what government does to help needy Americans, *if* it takes the form of cash assistance. Given the policies in place and data available, this was not an unreasonable choice in the mid-1960s. But today, much of what the government provides to low-income families takes the form of tax credits (such as the Earned Income Credit) and in-kind benefits (such as Food Stamps). If policymakers or the public want to know how these programs affect poverty, the official measure cannot provide an answer.

Recommendations from the National Academy of Sciences

The poverty measure adopted by CEO is based on more realistic answers to the two fundamental questions of poverty measurement. It follows a set of recommendations that, at the request of Congress, were developed by the National Academy of Sciences' (NAS)

Panel on Poverty and Family Assistance. The NAS-proposed method provides a more comprehensive definition of family resources, one that more fully captures what public policies do to support low-income families. It judges the adequacy of anti-poverty policies by comparing resources against poverty thresholds that are more appropriate to the living standards that prevail in early twenty-first century America.

The NAS Panel recommended that the poverty thresholds should reflect the amount a family needs not only for food, but for clothing, shelter, and utilities as well. Specifically, the threshold is set to equal roughly 80 percent of median expenditures by two-adult, two-child families on this market basket, plus "a little more" to account for other items necessary for personal care, household upkeep, and non-work-related transportation. The Panel proposed that these thresholds be updated each year by the change in median expenditures for the items that make up the threshold. It further suggested that the thresholds be adjusted geographically to reflect differences in the cost of living across the United States.

Along with a different poverty line, the NAS Panel recommended that a much more inclusive definition of resources be used to determine whether a family can meet its basic needs. In addition to pre-tax cash, the resource measure should account for payroll taxes; the net effect of income tax liabilities and credits; and the cash-equivalent value of in-kind benefits for food and housing. The Panel also suggested that resources be adjusted to reflect non-discretionary work-related expenses such as commuting costs and child care. Because money spent by a family to maintain its health is unavailable for purchasing the necessities represented in the threshold, the Panel also proposed that medical out-of-pocket expenses should be subtracted from income.

The CEO Poverty Measure

The NAS provided a conceptual framework for an improved poverty measure. CEO's task has been to construct the data needed to implement it in New York City. For the poverty line, we rely on the U.S.-wide thresholds that have been calculated from the Bureau of Labor Statistics' Consumer Expenditure Survey and have been used by the Census Bureau for its research on NAS-style poverty measures. In 2008, the NAS threshold for a two-adult, two-child family equaled $24,755. We then adjust the threshold to account for the relatively high cost of living in New York City using the ratio of the New York City to

U.S.-wide Fair Market Rent for a two-bedroom apartment. In 2008, the CEO threshold for this family comes to $30,419.[1]

To measure the resources available to a family to meet the needs represented by the threshold, our poverty measure employs the Public Use Micro Sample from the Census Bureau's American Community Survey (ACS) as its principal data set. The ACS, however, provides only some of the information needed to estimate all the resources required by the NAS measure. CEO has developed a variety of methodologies that model the effect of taxation, nutritional and housing assistance, work-related expenses, and medical out-of-pocket expenditures on total family resources and poverty status. We reference the resulting data set as "the American Community Survey Public Use Micro Sample as augmented by CEO" and we refer to our estimate of family resources as "CEO income."

This Working Paper

CEO's first working paper on poverty in New York City, issued in August of 2008, contrasted poverty rates for 2006 derived from our application of the NAS methodology against those based on the official method.[2] This report focuses on how and why poverty rates using our methodology have changed over time, using the one-year ACS samples for 2005 to 2008 (the years for which data are currently available).

Key Findings

- The CEO poverty rate for New York City rose from 20.6 percent in 2005 to 22.0 percent in 2008. The 1.4 percentage point increase occurred because the growth in CEO income did not keep pace with the rise in the CEO poverty threshold. Reflecting the sharp run-up in housing expenditures in this period, the CEO threshold climbed by 24.9 percent. But, as Table One indicates, CEO income grew by 21.1 percent at the 20th percentile and 19.5 percent at the 30th percentile (the part of the distribution that is most likely to influence the poverty rate).
- The official poverty rate, by contrast, declined by 1.5 percentage points from 19.1 percent in 2005 to 17.6 percent in 2008. The growth of pre-tax cash income (of 17.0

[1] The official threshold for a two-adult, two-child family in 2008 was $21,834.
[2] The report is available at: http://www.nyc.gov/html/ceo/downloads/pdf/final_poverty_report.pdf.

percent and 16.7 percent at the 20th and 30th percentiles, respectively) exceeded the 10.2 percent rise in the official poverty threshold.

Table One

Thresholds, Income, and Poverty Rates for NYC

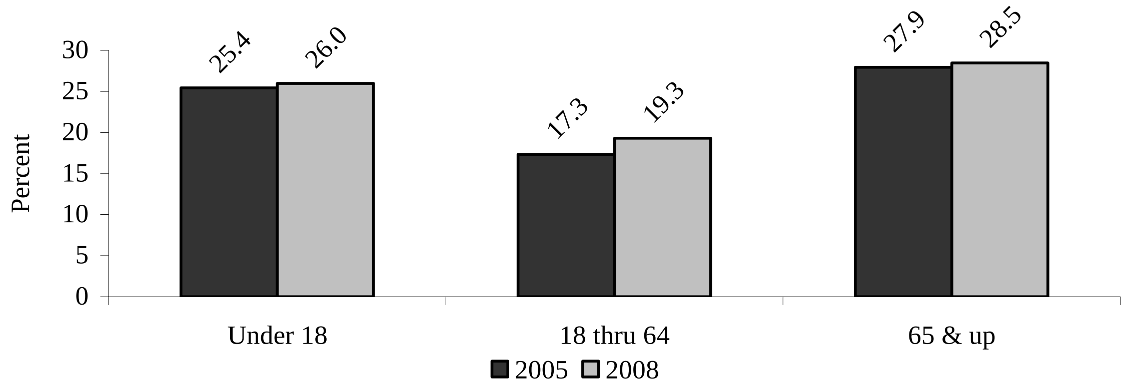
	2005	2008	Change*
CEO Threshold	$24,353	$30,419	24.9%
CEO Income:			
20th percentile	$24,054	$29,138	21.1%
30th percentile	$29,771	$35,571	19.5%
CEO Poverty Rate	20.6%	22.0%	1.4
Official Threshold	$19,806	$21,834	10.2%
Pre-tax Cash Income:			
20th percentile	$21,499	$25,149	17.0%
30th percentile	$31,193	$36,404	16.7%
Official Poverty Rate	19.1%	17.6%	-1.5

* Change in dollar figures is percentage change. Change in the poverty rate is the percentage point change.
Source: Tabulated from American Community Survey Public Use Micro Sample as augmented by CEO.

- Poverty Rates in Demographic Detail:
    - By age group: Working age adults (New Yorkers from 18 through 64 years of age) are significantly less poor than are children under 18 or the elderly (persons 65 and older). From 2005 to 2008, the poverty rate for working age adults rose by 2.0 percentage points. During this period the poverty rates for children and the elderly were unchanged.[3]

[3] The Executive Summary only notes those differences or changes in poverty rates that are statistically significant.

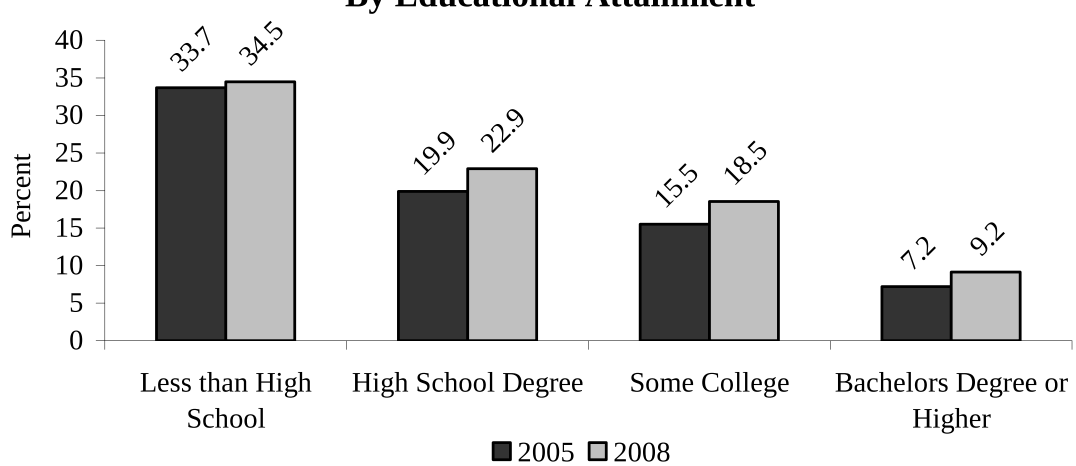
CEO Poverty Rates by Age



Source: Tabulated from American Community Survey Public Use Micro Sample as augmented by CEO.

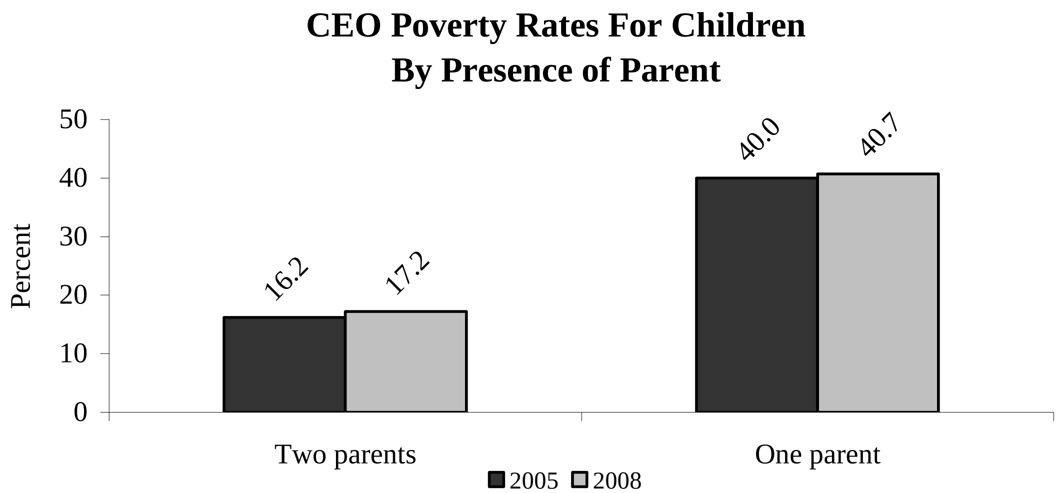
- <u>Among working age adults by educational attainment</u>: Levels of poverty decline dramatically as educational attainment rises. In 2008, over a third of working age adults who lack a high school degree were poor compared to less than one in ten 18 through 64 year olds who had attained a Bachelors degree or higher level of education. Changes in poverty rates, from 2005 to 2008, did not follow this pattern. The poverty rate rose by 3.0 percentage points, 3.1 percentage points, and 2.0 percentage points for working age adults with a high school degree, some college, or a Bachelors degree or higher level of educational attainment, respectively. Over the same time, the poverty rate for working age adults who have not attained a high school degree was unchanged.

CEO Poverty Rates For Working Age Adults By Educational Attainment



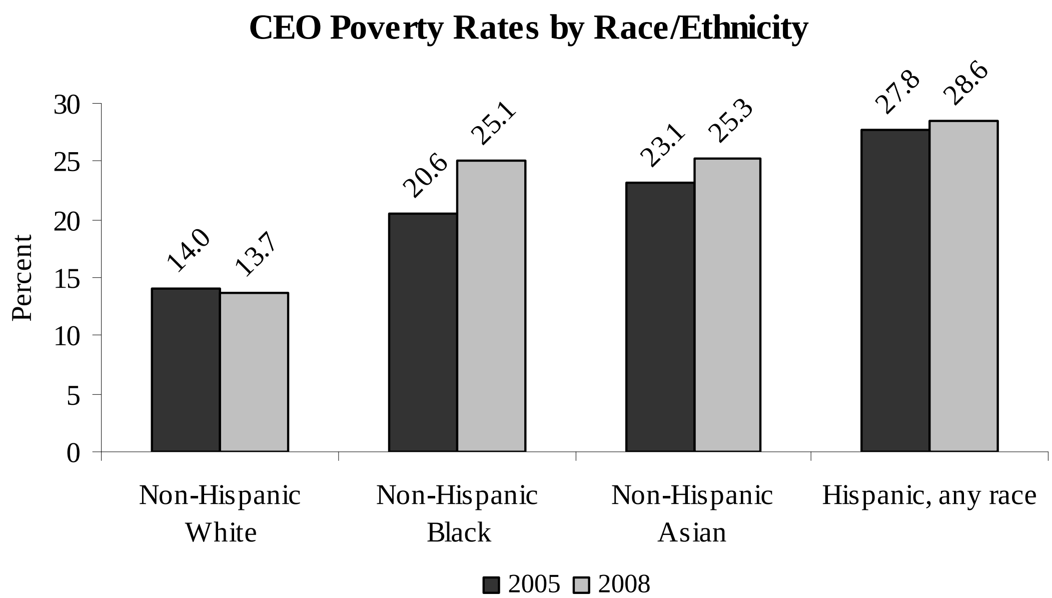
Source: Tabulated from American Community Survey Public Use Micro Sample as augmented by CEO.

- Among children by presence of parents: Children living with only one parent are over twice as likely to be poor as children living with two parents. From 2005 to 2008, neither group of children experienced a statistically meaningful change in their poverty rates.



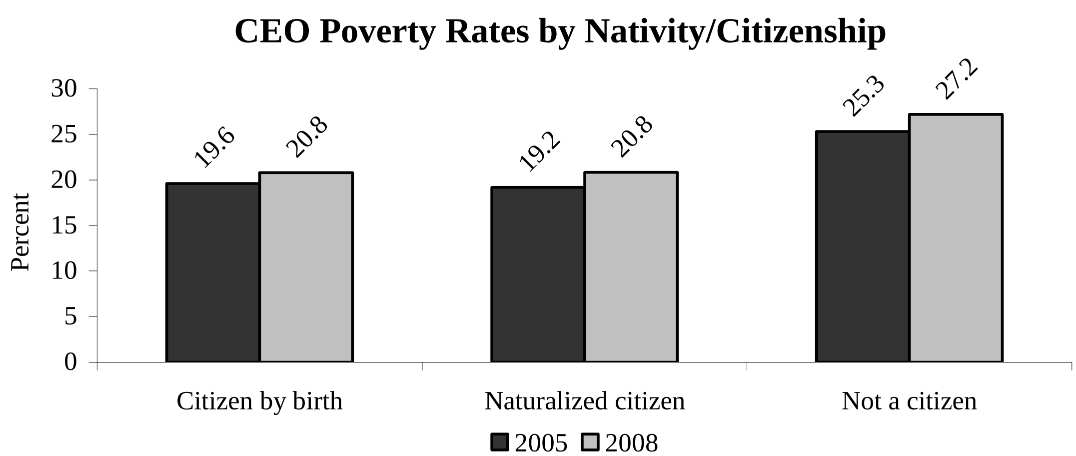
Source: Tabulated from American Community Survey Public Use Micro Sample as augmented by CEO.

- By race/ethnicity: Non-Hispanic Whites have significantly lower rates of poverty than members of the other major race/ethnic groups in New York City. The poverty rate for Hispanics, the City's poorest race/ethnic group, is twice that of Non-Hispanic Whites. The one group that experienced a rise in their poverty rate from 2005 to 2008, of 4.5 percentage points, was Non-Hispanic Blacks.



Source: Tabulated from American Community Survey Public Use Micro Sample as augmented by CEO.

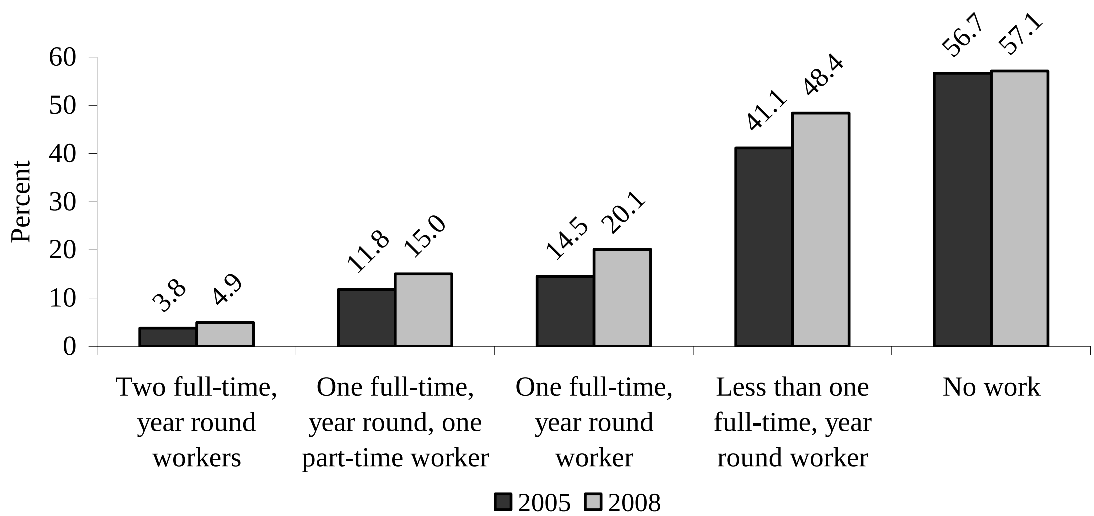
- By nativity/citizenship: Citizens by birth and by naturalization have similar poverty rates and their levels of poverty are significantly lower than those for non-citizens. The poverty rate for both groups of citizens edged upward from 2005 to 2008, by 1.2 percentage points and 1.6 percentage points, respectively. The poverty rate for non-citizens was statistically unchanged.



Source: Tabulated from American Community Survey Public Use Micro Sample as augmented by CEO.

- By family work experience: Someone living in a family without work is over 10 times as likely to be poor as someone living in a family with the equivalent of two full-time workers with year-round employment. But, from 2005 to 2008, poverty rate increases were experienced by: people living in a family with the equivalent of two full-time, year-round workers (of 1.1 percentage points), individuals in families with the equivalent of one full-time, year-round worker and one part-time worker (of 3.2 percentage points), persons in families with the equivalent of just one full-time, year-round worker (of 5.6 percentage points) and those New Yorkers who were living in a family with less than a full-time, year-round worker, but some work (of 7.3 percentage points). Members of families without any work in the prior 12 months did not experience an increase in poverty from 2005 to 2008.[4]

CEO Poverty Rates by Family Work Experience



Source: Tabulated from American Community Survey Public Use Micro Sample as augmented by CEO.

Explanations and Implications

We see two patterns in the poverty rates by demographic detail. Between-group differences in the *level* of poverty largely reflect differences in the ability of groups to succeed in the labor market. Thus the likelihood that someone is poor falls dramatically with their level of education or the level of work activity in their family. However, the *increases* in poverty rates from 2005 to 2008 tended to occur for groups that rely on earned

[4] See Section III for an explanation of how these work experience categories are defined.

income. By contrast, poverty rates were more stable in this period for groups that have low levels of labor market participation. For example, the poverty rate for people in working families rose in this period, while the poverty rate for those living in families without work was statistically unchanged from 2005 to 2008.

Differences in housing status figure prominently in the explanation for this pattern. Three out of four low-income non-working families (74.6 percent) compared to less than half of low-income working families (46.2 percent) are residents of public housing, participate in a rental subsidy program, live in a rent stabilized or controlled apartment or own their home free and clear of a mortgage. New Yorkers in these types of “non-market rate” housing were largely shielded from the rapid rise in the CEO threshold during the period of our analysis. Although their level of poverty may be high, it did not increase. By contrast, the earnings of working families, who are more likely to live in market-rate housing, did not keep pace with the growth in the CEO threshold.

The advantages of participation in means-tested housing programs or residence in rent stabilized or controlled apartments are not restricted to families without work. Access to non-market rate housing also increases the likelihood that working families with children can escape poverty. Over one-in-five (21.2 percent) working families with children were “earnings poor” in 2008, meaning that the family’s total wages or self-employment income is not sufficient to lift them out of poverty. We find that work-related tax programs, such as the Federal, State, and New York City Earned Income Credits and Child Care Credits make an important contribution to these families’ incomes. But these additions are largely offset by work-related costs, such as payroll taxes, child care expenses, and the cost of commuting to and from work. A key factor that distinguishes families whose total resources lift them over the poverty line from those that remain in poverty is that a much larger proportion of the former group (over 80 percent) than the latter group (less than half) are living in non-market rate housing.

The measures of poverty in this report lend support to the belief that the poverty rate would fall with higher levels of educational attainment, increased work force participation, and more children growing up in two-parent families. In this respect, the CEO measure largely confirms widely accepted wisdom about the long-term determinants of poverty reduction. The additional insight this report offers is the need to add affordable housing to this list.

Michael R. Bloomberg
Mayor

Center for
Economic Opportunity
nyc.gov/ceo

Printed on Recycled Paper