

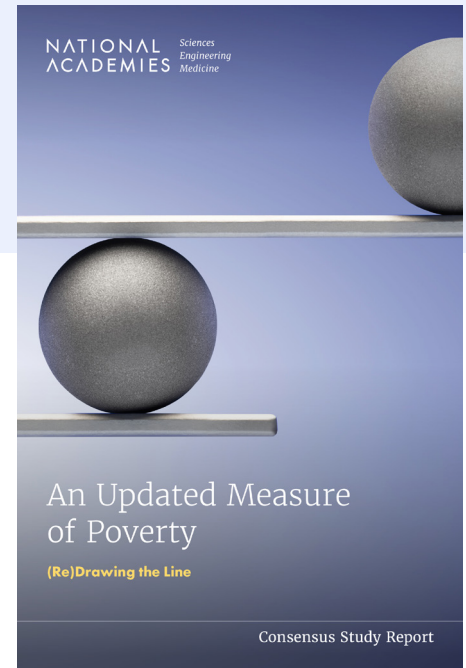
An Updated Measure of Poverty

(Re)Drawing the Line

An accurate measure of poverty is necessary to fully understand how the economy is performing across all segments of the population, and to assess the effects of government policies on communities and families. Thus, poverty measures produced by the federal statistical system are critical to meeting the nation's research, policy, and public information needs.

In addition, poverty statistics are essential for determining the size and composition of the population whose basic needs are going unmet and for tracking how conditions facing this group are changing over time. Accurate poverty measures help society target resources to alleviate hardships experienced by disadvantaged populations and are crucial for assessing the effectiveness of programs designed to improve their wellbeing.

Measurement of economic poverty involves estimating: (1) a basic needs budget or threshold; and (2) the economic resources available to families, individuals, or households. If a household's estimated resources fall below the threshold, it is considered to be living in poverty. From this basic construct, many methodological choices are available, choices that profoundly impact the fitness of a measure to serve different purposes. To illustrate, in 2022, the U.S. Census Bureau reported both an increase and a decrease in poverty for families between 2019 and 2021. The poverty rate under the U.S. Official Poverty Measure (OPM), developed in the 1960s and methodologically unchanged since then, grew from an estimated 10.5 percent to 11.6 percent of the population. In contrast, the rate under the Supplemental Poverty Measure (SPM)—a measure developed comparatively recently to more comprehensively account



for resources available to households and to track policy impacts—declined from 11.8 percent to 7.8 percent. These poverty rates moved in sharply opposing directions primarily because the SPM counts income support received through the tax system, which, during this period, included COVID-19 stimulus payments, while the OPM does not (it is based exclusively on a food budget established in the 1960s). In other words, the SPM reflected that the stimulus payments—along with regular in-kind government support programs such as the Supplemental Nutrition Assistance Program and tax benefits such as the Earned Income Tax Credit and the Child Tax Credit—helped reduce poverty during the pandemic.

The U.S. Census Bureau requested that the National Academies of Sciences, Engineering, and Medicine convene a consensus panel with expertise in the measurement of economic wellbeing, the use of poverty statistics in policy development and evaluation, and survey methodology to evaluate the SPM and recommend modifications for its improvement. The intent of the panel was to assist the U.S. Census Bureau and the Bureau of Labor Statistics in ensuring that the SPM continue fulfilling its mandate to provide information on aggregate levels of economic need that informs public understanding of economic conditions and trends affecting people with lower incomes.

The resulting consensus study report assesses the strengths and weaknesses of the SPM and provides recommendations for updating its methodology. The study recognizes the need to periodically revisit construction of the measure to account for changes in the population's consumption patterns, social and economic norms, perceptions of wellbeing, and the goods and services needed to participate fully in the economy. The study also recognizes that the types and range of data available to statistical agencies producing economic statistics changes over time, sometimes dramatically.

ALTERNATIVE POVERTY MEASURES

The major advance of the SPM over the OPM is that the former measures resources in a way that includes both cash income and in-kind government benefits such as

food assistance and housing subsidies, as well as income provided through the tax system. The SPM resource concept also considers the impact of nondiscretionary expenditures (taxes, work expenses, child support payments, and medical out-of-pocket expenses) on a family's capacity to achieve a given level of material wellbeing. These features of the SPM, which tailor it for the task of tracking the effects of public policies and programs on the population living in or near poverty, has resulted in its status as the preferred measure of many researchers and policy makers. Recognizing its importance in this respect, the report recommends that the SPM be elevated to the nation's headline poverty statistic and renamed accordingly (e.g., to the Principal Poverty Measure [PPM]).

In proposing the PPM, the report reconsiders the SPM approach to both threshold setting and resource estimation. Since its inception, the SPM has estimated a poverty threshold based on survey reported costs of obtaining food, clothing, shelter, and utilities (FCSU); in 2021, the U.S. Census Bureau added internet to the basic needs bundle. In its specification of the PPM, the set of threshold categories has been expanded to explicitly recognize additional expenditures required of most American families. Specifically, the report argues that compelling cases can be made for including medical care and, with further research, childcare in the basic needs bundle, and for updating how basic housing costs are estimated. The fact that medical care and childcare are broadly recognized as basic needs—needs that typically account for a bigger budget share than SPM-included categories such as clothing—means that the threshold component of the PPM comes closer to representing the full resource level needed to keep a family out of poverty. This creates a transparency advantage for the PPM over the SPM, which hides some of these costs by subtracting them from resources. This keeps the threshold (based only on FCSU) at a lower level and, in a sense, makes it less meaningful as a stand-alone statistic.

MEDICAL CARE

In the SPM, medical care is only accounted for to the extent that out-of-pocket expenditures reduce a household's discretionary resources. Thus, the unmet

medical care need of persons who are uninsured or underinsured goes unaccounted. The SPM estimate implicitly assumes that a family's medical care need is equal to the amount spent out of pocket on insurance and medical care, which is often not the case. For this (and other) reasons, the report recommends that the approach to medical care in the SPM be replaced with one that includes health insurance as a basic need in the threshold and, if provided by an employer or the government, as a resource. One option for representing the insurance need of most households is the Affordable Care Act (ACA) benchmark plan. The ACA specifications provide an implementable answer to the question: how much cash income would an uninsured person need to obtain a basic health insurance policy? Similarly, Medicare (e.g., the full cost of a Medicare Advantage plan) represents basic coverage for the population aged 65 and older or for those who otherwise qualify for the plan. Including medical care need in the PPM threshold means that medical-related benefits received by households—specifically, the value for any health insurance benefits or subsidies received from an employer or from the government—must be accounted for in the calculation of available resources.

CHILDCARE

In the current SPM, paid childcare costs, like commuting costs, are deducted from a family's resources as a work expense—and thus apply only to working parents. In the proposed PPM, childcare, like medical care and shelter, could be included as an explicit element of the basic needs bundle once an agreed-upon method and reliable data are established. The threshold amount (adjusted for number and age of children and geographic location) would, ideally, apply to *all* households with children because all children require care. Childcare market rate surveys, conducted by each state as part of Child Care and Development Fund programs, provide a promising information source for setting the basic need amount, as does the Department of Labor's National Database of Childcare Prices. Placing childcare needs in the threshold alongside other elements of the basic bundle creates transparency by making explicit a more complete range of families' basic needs. If childcare needs are incorporated into the PPM threshold, childcare assistance

from programs funded by federal and state governments must be added to household resources.

HOUSING

The SPM threshold is based on the median level of spending on basic needs, as reported by respondents of the Consumer Expenditure Survey. As described above, the proposed PPM shifts the method of estimating some basic needs categories toward one based on program-established levels, such as ACA benchmark insurance costs. This approach may also be extended to other threshold need categories as well—most notably, housing. Housing is typically the largest component of a household's spending, particularly for those with low incomes. A poverty measure should reflect whether households have adequate resources to obtain a basic level of shelter while still being able to afford other necessities such as food, clothing, childcare, transportation, and medical care. Given its budgetary prominence, the methodological and data choices used in estimating housing costs carry the potential to have large impacts on economic statistics.

A straightforward way of representing a basic shelter need is to establish the cost, based on geographic location and family size, of renting an "acceptable quality" house or apartment. For households with low incomes, rental housing is typically more attainable than is purchasing a home; unsurprisingly, for these families, renting is more common than owning a home. In this sense, renting represents the baseline housing need. The proposed approach in the report would base shelter threshold amounts (for everyone) on the cost of renting a "standard quality" unit of the appropriate size for the household as established by the Department of Housing and Urban Development's Fair Market Rent estimates. Like the SPM, the PPM would continue to reflect geographic differences in housing costs set at the individual metropolitan area or non-metropolitan county level. The proposed approach of determining housing needs requires that resource estimation also be modified. For renters, in-kind housing assistance would continue to be accounted for in PPM resource estimates. For homeowners, implicit rental income would factor into PPM resource estimates because this group benefits from

not having to pay monthly rent, which, in turn, frees up resources to cover other needs.

IMPLICATIONS OF MIGRATING FROM THE SPM TO THE PPM

In the respecified PPM, several limitations of the SPM are remedied. For example, the SPM may treat an uninsured family as not in poverty because they have few medical expenses. However, the PPM could categorize the same family in poverty assuming they cannot afford to pay for health insurance. Similarly, a homeowner with a large house and a mortgage may be considered poor in the SPM, but non-poor in the PPM because the latter acknowledges that homeownership frees up a stream of income that does not have to be spent renting shelter. The SPM assumes that only working families require childcare, which is considered a work expense, while the PPM assumes that other families with children—including those supporting students and disabled adults—also require childcare. The PPM also accounts for the impact of health and childcare subsidies, which can be a substantial transfer to families.

DATA IMPROVEMENTS

As the methodology underlying the SPM/PPM is updated to keep pace with changing economic conditions, social norms, and policy environment, the data infrastructure must likewise respond to challenges and opportunities.

Investing in the PPM data infrastructure creates benefits that extend more broadly in the production, for example, of better economic statistics to analyze income distribution and inequality at the household level.

Key economic surveys (e.g., the Current Population Survey, the American Community Survey, the Consumer Expenditure Survey) will continue to play an important role in the construction of the PPM. However, because of limitations in the ability of surveys to accurately capture information on household income, program benefits, and household benefits, a more flexible data approach is needed. The report recommends, in particular, that the U.S. Census Bureau accelerate and expand the use of administrative data to improve estimates of resources in the PPM. This strategy will require that collaborations be pursued to incorporate state-level administrative data to improve survey-based PPM estimates that suffer from item nonresponse and reporting inaccuracies.

Implementing the recommendations in this report—both in modernizing conceptual specifications and incorporating a forward-looking data strategy—will help ensure that the key poverty measures produced by the federal statistical system will continue to effectively meet the nation’s essential research, policy, and public information needs.

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FOR MORE INFORMATION

The Report Highlights was prepared based on the Consensus Study Report *An Updated Measure of Poverty: (Re)Drawing the Line* (2023). Copies of the Consensus Study Report are available from the National Academies Press at www.nap.edu. Recordings of the open sessions organized by the committee are available on the National Academies website at: <https://www.nationalacademies.org/our-work/evaluation-and-improvements-to-the-supplemental-poverty-measure>.

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