

Recommendations for Strengthening Poverty Measurement

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Committee Member, *A Roadmap to Reducing Child Poverty*

A Dialogue on Measuring and Reducing Child Poverty

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Poverty Measurement

- The Committee was not charged with examining poverty measurement issues
- It was required to use the SPM
- Importantly, one element of our Statement of Task was to: Identify key, high-priority research gaps the filling of which would significantly advance the knowledge base for developing policies to reduce child poverty in the United States and assessing their impacts.



My remarks – the roadmap

1. “Statement of the problem” – limitations of SPM
2. Ways to improve the measurement of the SPM (in particular, for measuring child poverty)
3. Alternative poverty measurement



Statement of the problem

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1. Underreporting of government benefits is significant

- Crucial measures of family resources are underreported in household surveys
- In 2006-07 the CPS captured only 54% of SNAP benefits and 83% of EITC benefits
- Underreporting of income → overreporting of poverty
- The NAS report uses TRIM3 to adjust for underreporting



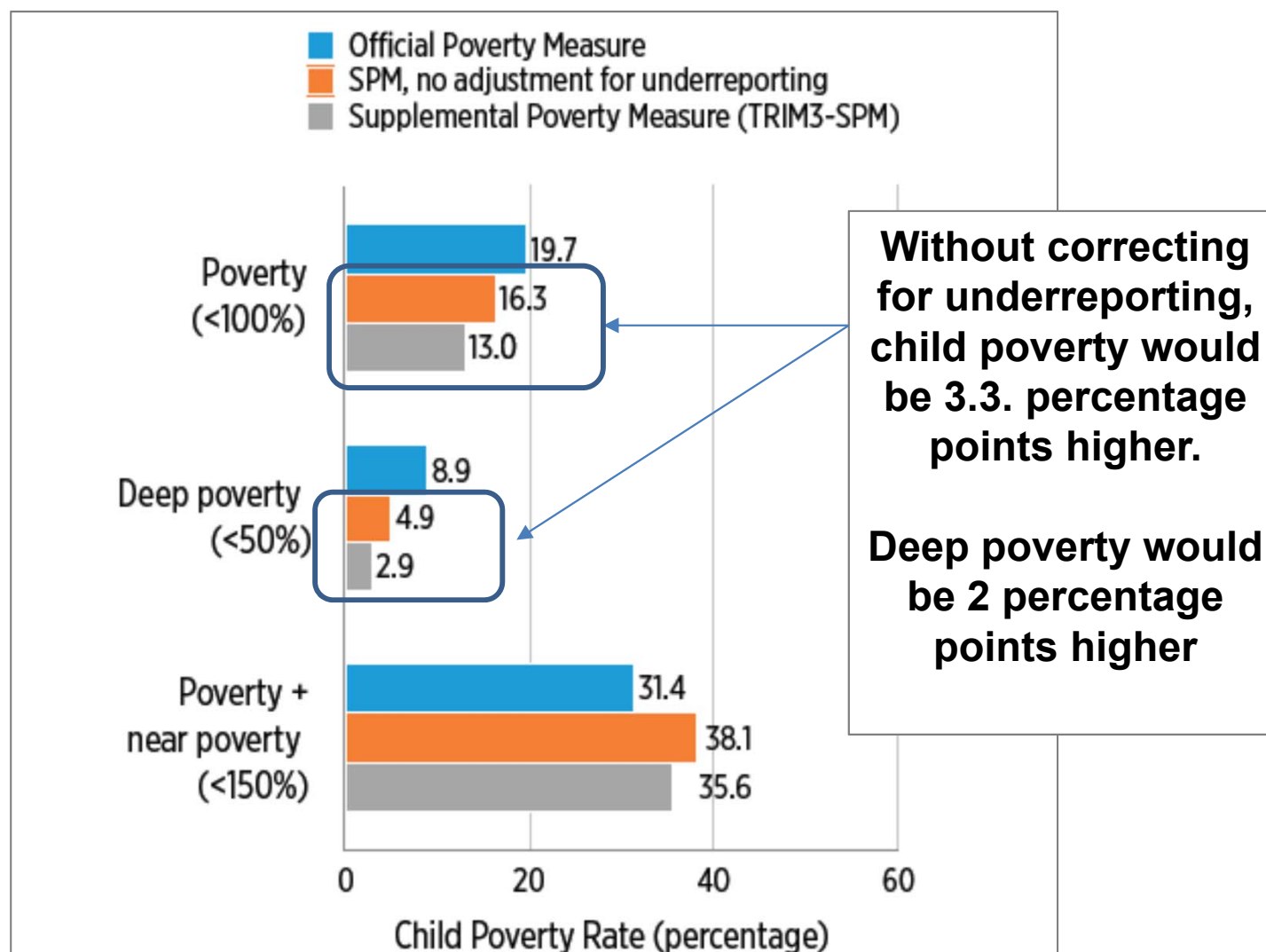


FIGURE 2-1 Rates of poverty, deep poverty, and near poverty for children using three alternative poverty measures, 2015.

NOTE: SPM = Supplemental Poverty Measure.

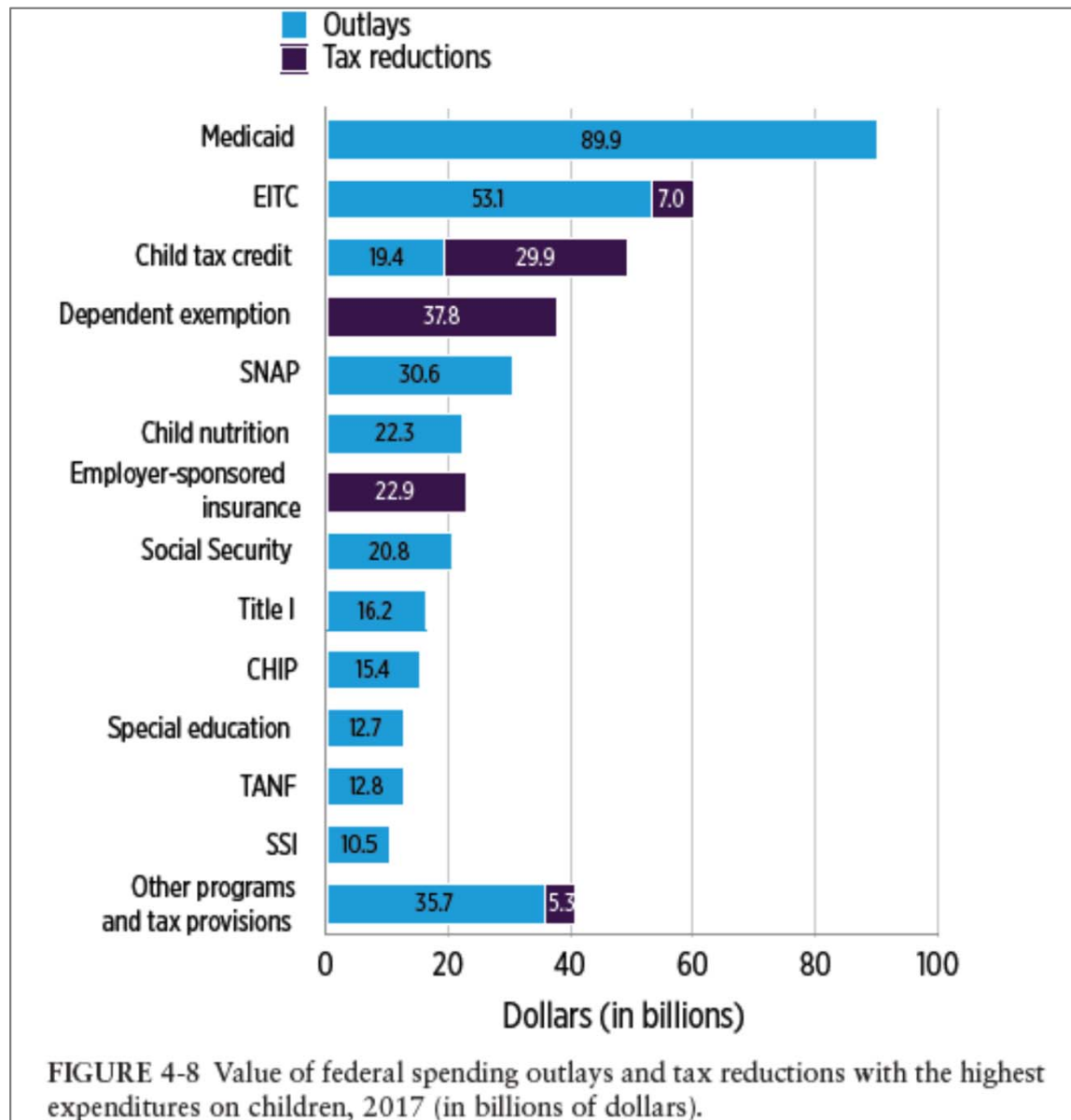
SOURCE: Commissioned by the committee, estimates are from TRIM3, which include adjustment for underreporting.

2. SPM income does not include benefits from public health insurance

- Therefore, the NAS report does not simulate any changes to Medicaid
- Yet a significant body of research shows short and long run benefits of Medicaid coverage



Medicaid represents highest federal spending on children



The background of the slide is a landscape painting. It depicts a long, straight road that stretches from the foreground into the distance, leading towards a horizon where the sun is setting or rising. The sky is filled with soft, warm colors of orange, yellow, and blue. The road is flanked by fields and distant hills. The overall style is impressionistic, with visible brushstrokes and a focus on light and color.

Ways to improve the measurement of the SPM

(in particular, for measuring child poverty)

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1. Underreporting

- TRIM3 uses published aggregate statistics to adjust for underreporting (CBO also does this)
- An alternative is use administrative data, linking at the individual or household level
- There is a growing recognition, as voiced by many previous reports and committees, of the need to make administrative data available to enhance surveys and federal statistics (our committee also endorses this idea)



2. Accounting For Health Care

- OPM ignores health care needs, benefits, and costs
- Early efforts added medical care benefits to income; made elderly and disabled look better off because of high cost of care, not recognizing high needs
- SPM subtracts MOOP from income but excludes health care needs from threshold
- Committee commissioned paper by Korenman, Remler, and Hyson (2017) – they recommend (and committee endorses) development of a Health-Inclusive Poverty Measure (HIPM) building on the SPM



HIPM Approach: I—Concept

- Need to add health care to *both* sides in a *consistent* manner
 - (1) Add health care needs to thresholds, using market-valued *premiums* for particular community-rated *health insurance plans* (no longer need to impute health care needs)
 - (2) To the resource side, add subsidies or payments for health insurance net of premiums paid and cap out-of-pocket (MOOP) deduction to account for nonpremium cost-sharing



HIPM Approach: II—Thresholds

- Add to SPM threshold the premium for a basic needs health insurance plan
- Authors recommend using unsubsidized premium of second cheapest ACA Silver Plan in an area for an individual or family with adjustments for age and family size depending on the state (or for 65+, unsubsidized cost of a Basic Medicare Advantage-Prescription Drug Plan)



HIPM Approach: III—Resources

- Adding benefits to resource measure:
 - ACA premium subsidies, or Medicare/Medicaid net of MOOP premium, or employer insurance net of MOOP premium
 - Capped at threshold plan price premium
- Deduct nonpremium MOOP (co-pays, et al.)
 - Capped at threshold plan price MOOP cap



HIPM Results

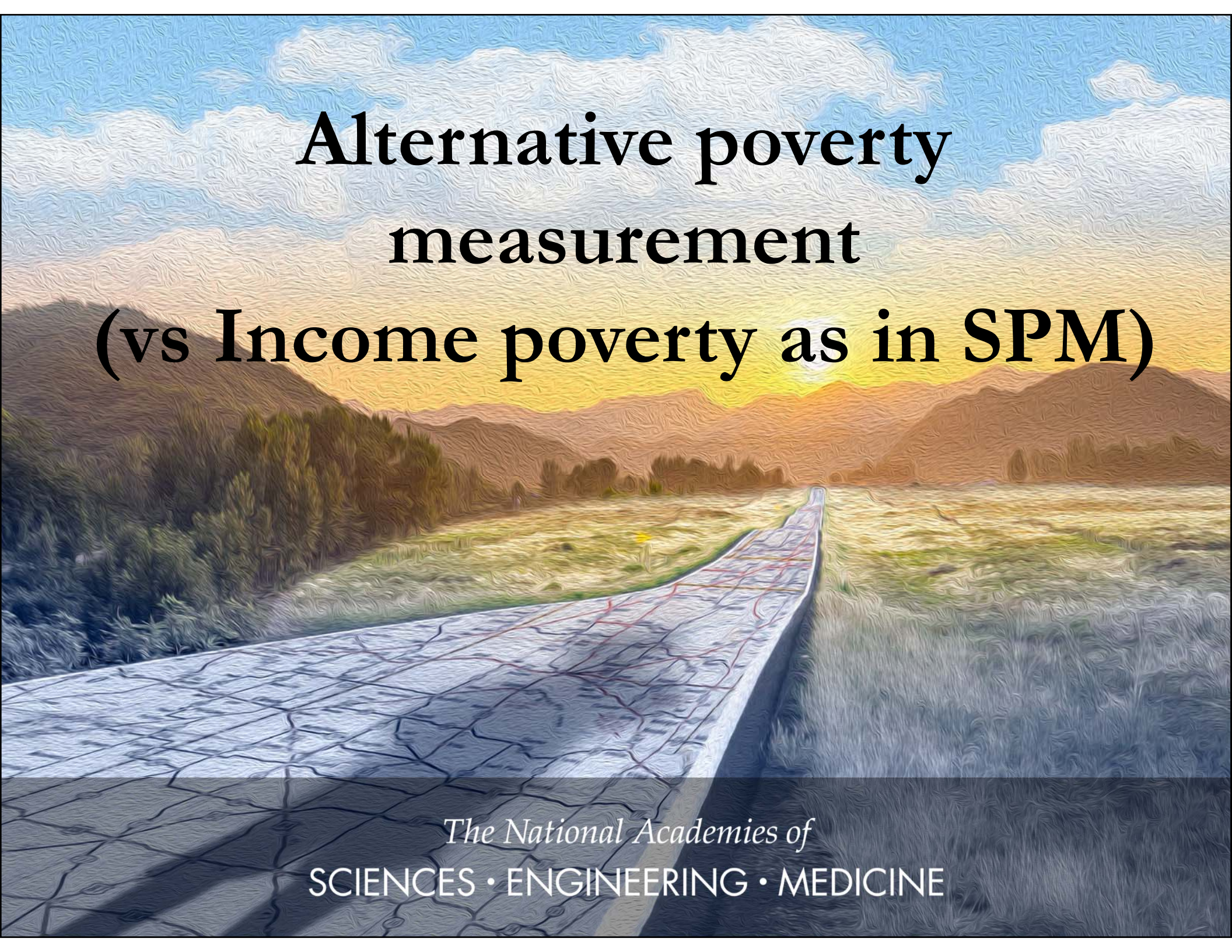
- HIPM threshold, 1 adult, 2 kids (2014):
 - \$20,779 (SPM) + \$6,949 (Health) = \$27,727
- Child poverty rate:
 - HIPM poor: 18.4% (SPM poor: 16%)
- Effect of subtracting from HIPM resources:
 - Medicaid: 5.3 pp increase
 - Means-tested benefits: 4.4 pp increase
 - Tax credits: 6.5 pp increase



3. Other Recommendations

- Improve sampling for small population groups that merit particular attention in the context of child poverty:
 - American Indian and Alaska Native population
 - children with disabilities
 - children with incarcerated parents



The background of the slide is a landscape painting. It depicts a long, straight road that is heavily cracked and weathered, stretching from the foreground into the distance. The road is flanked by dry, grassy fields. In the background, there are rolling hills and mountains under a sky with soft, warm light, suggesting a sunset or sunrise. The overall style is painterly and evocative.

Alternative poverty measurement (vs Income poverty as in SPM)

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Consumption Poverty: Pros/Cons

- Committee supports both types of measures
- Pro:
 - Consumption may capture current well-being of families better than income
- Con:
 - Low-income families may have unstable incomes and difficulty with saving/access to credit. They then may have to rely on high-interest rate loans and various under-the-table sources: (a) unlikely to be measured in surveys; (b) produce a misleading picture of the family's financial stress
 - Estimating impact of government programs on consumption requires behavioral modeling; no research available



Consumption Poverty:

Data/Measurement Pros/Cons

- Pro: Consumption may be better measured in surveys than income
 - More research needed; administrative data and improved imputations could help
- Con: Translation of expenditures into consumption measurement requires assumptions
 - Examples: durables, housing; investment vs current consumption
- Con: CE has substantially smaller sample sizes than CPS ASEC
 - CE will not support subnational estimates or much disaggregation by population group



Relative vs. Absolute Poverty

- Both types of measures have their uses (SPM is quasi-relative by design); anchored measures are also useful
- Absolute (or anchored) measure with constant thresholds over long period of time becomes out of touch with contemporary conditions
- Increases in living standards (e.g., more people have washing machines, etc.) does not mean that poverty has been erased (see Appendix D, 2-2, p. D-2-9, for an historical example involving indoor plumbing)





Thank you!

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