

MarketWatch

Poverty guidelines: Hurting or helping the poor?

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By Ruth Mantell

Expanding a program to provide health care for lower-income children has turned into one of this year's most fiercely debated issues, pitting the White House against the majority of lawmakers, both Democrats and Republicans.

The heart of the debate focuses on how much a family can earn and still be considered poor enough for the kids to receive assistance from the State Children's Health Insurance Program. But many experts say this critical decision is being based on a federal guideline -- commonly referred to as the federal poverty level -- that no longer accurately reflects the cost of living and today's spending patterns.

This year the federal poverty guideline is \$20,650 for a family of four in the contiguous states and the District of Columbia.

"When you talk about the poverty line a lot of people think it's much too low because it's really hard to sustain a family on that amount," said John Iceland, former chief of the Census Bureau's poverty and health statistics branch.

A family trying to make ends meet in New York in 2004 would have needed \$58,656 -- about three times the federal poverty guideline of \$18,850 in that year, according to the Economic Policy Institute, a nonpartisan think tank.

Despite its seemingly unrealistic estimation of poverty, eligibility is pegged to the poverty guideline for many federal programs ranging from Food Stamps to SCHIP, the children's health insurance program.

"You are talking about programs geared toward the lower-income population, and the [federal poverty levels] just aren't doing the

trick," said Iceland, now an associate professor in the University of Maryland's sociology department.

No positives about a 'really outdated measure'

There's a tacit acknowledgement among politicians and program administrators that the federal poverty guidelines are blunt tools. When it comes to the State Children's Health Insurance Program, lawmakers don't even mention making eligibility requirements for families at 100% of the federal poverty level. Rather, proposals call for SCHIP eligibility to be set at various multiples of the federal poverty level.

"Using a multiple of the FPL dampens some of the damage that you could do, but it's obviously arbitrary," said Jared Bernstein, director of EPI's living standards program. "There's nothing positive about using a really outdated measure."

On Thursday, the House failed to override President Bush's recent veto of the proposed SCHIP expansion.

Bush wants the program to focus more on children in families with incomes under 200% of the federal poverty level -- about \$41,000 this year for a family of four. Yet, since the program's decade-ago inception, states have had the flexibility to craft eligibility guidelines, resulting in a range of thresholds across the country.

Precise decisions with blunt tools?

Observers may wonder how lawmakers can be expected to make informed decisions about which families are truly poor and therefore deserving of assistance given that

statisticians doubt the accuracy of the federal poverty guidelines.

It's unclear whether kids should be excluded from benefits because their families have incomes too far above a guideline that is known to poorly reflect contemporary spending patterns and standards of living.

More than 40 years ago, Mollie Orshansky, then a researcher with the Social Security Administration, developed measures of poverty that were later picked up by the Johnson administration, which had declared a War on Poverty. Orshansky, who died in December, created the poverty statistic by multiplying the cost of a food plan for families on a tight budget by three. She determined the multiplier by using findings that families with at least three members spent about one-third of their income on food.

Times have changed, though the underlying assumptions of the federal poverty line have not. The guideline is updated annually, multiplied by the urban consumer price index. But there have been no major alterations that would reflect consumers' changing spending habits and other major shifts in the economy.

The Department of Health and Human Services notes that the food share used to develop the thresholds does not represent contemporary consumption patterns for either general or poverty populations. For example, households in 2005 spent an average of about 10% of before-tax income on food, according to the Bureau of Labor Statistics' most recent consumer spending survey. That food spending level is significantly less than the one-third upon which Orshansky based her model.

Changing trends not reflected in poverty measure

While the proportion of family spending on food has gone down, child care costs have soared. Changes in labor force participation have significantly increased child care needs -- but the poverty guideline doesn't offer different thresholds for families with these costs.

It also doesn't account for trends such as the growth in medical care costs, or geographic price differences. Further, it doesn't take into account the federal Earned Income Tax Credit, or near-cash government benefits from programs such as food stamps and housing assistance.

If the guideline reflected increasing costs for items such as health care, then more families would be likely to fall into the poverty category, experts agree. On the other hand, these same experts note that if all of the benefits families received were taken into account then their income would rise and the number of families in poverty might decrease.

A major report in 1995 from the Panel on Poverty and Family Assistance, appointed by the National Research Council, noted numerous problems with the federal poverty guideline:

"It no longer provides an accurate picture of the differences in the extent of economic poverty among population groups or geographic areas of the country, nor an accurate picture of trends over time... There have been marked changes in the nation's economy and society and in public policies that have affected families' economic well being, which are not reflected in the measure."

The report makes another important statement:

"Without revision, and in the face of continuing socioeconomic change as well as changes in government policies, the measure will become increasingly unable to inform the public or support research and policy making."

Despite those recommendations twelve years ago, no changes have been made in how the government estimates the poverty level.

Alternatives to measure poverty

There are actually two federal poverty measures -- poverty thresholds and poverty guidelines -- and they yield very close results. For 2006, the 4-member family poverty guideline was \$20,000, compared

with a weighted average of \$20,614 for the threshold.

The poverty guidelines are used by HHS to determine eligibility for programs, and are a simplified version of the thresholds, which the Census Bureau uses for statistics such as calculating the number of people in poverty.

The Economic Policy Institute's calculation for a "family budget" takes local prices into account, yielding geographically diverse results that are several times higher than the federal poverty guideline. The family budget reflects local prices for items such as housing and food that families need to "have a safe and decent though basic standard of living." Just as important are the categories that the family budget does not include -- there is no line item for savings and nothing for emergencies.

So those living on a family budget are getting by but not preparing for their financial future or building wealth.

There are other alternatives to the current poverty guidelines. Diana Pearce, a senior lecturer with the University of Washington's School of Social Work, has developed a **self-sufficiency standard**. Her measure uses "bare bones" budgets to find the minimal cost of living in a given place for a given family, including important items such as child care, health care and taxes and tax credits. Using her standard could be appropriate for a program such as SCHIP because of its flexibility.

"What is clear from looking at this minimal budget, is that in different states, different multiples of the poverty line are perfectly appropriate, even as high as 400% of the federal poverty line," Pearce said. "Anyone with income below the standard is going to be forced to choose to give something up -- double up in housing, or go to the food bank to stretch the food budget, use sketchy child care -- or go without health insurance [or] health care."