

Impact of Modernizing the American Poverty Measure on the Poverty Status of Older Persons

- ✓ **The current official poverty measure does not provide adequate information about who is poor or whether key programs are helping to make progress against poverty.**
- ✓ **The current official poverty measure understates persons age 65 or older in poverty, largely because it is based on outdated food consumption patterns and ignores the cost of health care.**
- ✓ **In 2008, the experimental poverty rate for persons age 65 or older was 18.7 percent, almost double their current official poverty rate.**

Introduction

A new U.S. poverty measure is sorely needed. The Supplemental Poverty Measure (SPM) that will be produced by the Bureau of the Census in 2011 and the Measuring American Poverty (MAP) Act of 2009 provide significant opportunities to generate a new official poverty measure.¹ The new poverty measure would use a better set of facts to calculate the poverty status of Americans and provide a realistic picture of poverty in the United States. This Fact Sheet presents poverty rates based on a similar experimental measure of poverty, particularly focusing on the older population.

The current official poverty measure developed in the early 1960s is a flawed statistic. It measures poverty by comparing a family's income to a threshold level of need. The official poverty threshold is based on food consumption patterns of 1955 and does not reflect current needs or living standards.² The measure of income evaluated against this threshold does not reflect tax liabilities, out-of-pocket spending on health care, and other

significant costs, nor does it account for important forms of public assistance.

As a result, the current official poverty rate does not provide adequate information about who is poor or whether key programs are helping to make progress against poverty.³

Moving toward a Realistic Measure of Poverty

Researchers and policymakers broadly agree that the current official poverty measure should be revised.⁴ This consensus is largely reflected in the recommendations of the National Academy of Sciences (NAS) Panel on Poverty and Family Assistance, released in 1995, after two years of study.⁵

The NAS recommendations address both the threshold and resource components. First, the NAS panel concluded that a modern measure of poverty would utilize a threshold that represented a current budget for food, clothing and shelter, plus a little more for other needs. Second, the measure would replace cash income with a concept that reflects the resources that families have to pay for food, clothing, shelter, and other

necessities. Resources would include income plus tax credits such as the earned income tax credit (EITC), as well as noncash public assistance, less taxes, medical bills, and work-related expenses.⁶

The NAS panel stressed that the resource measure should be updated regularly to reflect current spending on necessities. In addition, the panel recommended that the poverty measure be adjusted to account for variation in the cost of living across the country. Last, the panel recommended that the distinction in the poverty threshold by age be eliminated.

Each year since 1999, the U.S. Bureau of the Census has released estimates of experimental measures of poverty rates in the United States based on implementing the recommendations of the NAS panel.⁷ The measures proposed in the MAP Act and the SPM are somewhat different from the measures modeled by the Census Bureau to date. For example, the SPM will employ different thresholds for homeowners with a mortgage, homeowners without a mortgage, and renters. However, the

Census experimental measures are similar to the SPM and MAP Act proposal and provide a more accurate depiction of poverty than the current official measure. Examination of the Census experimental measures shows how various changes in the poverty thresholds and income definitions change the poverty rate.⁸

Experimental Measures of Poverty for the Entire Population, 2000 to 2008

The experimental poverty rate for the U.S. population in 2008 was 15.8 percent, 2.6 percentage points higher than the official poverty rate (table 1). The experimental measure was consistently higher than the official poverty measure from 2000 to 2008. The average of the experimental poverty rate during this time span was 1.4 percentage points higher than the average official poverty rate. This arguably modest difference in the two estimates masks larger differences in certain years and for certain demographic groups.

Year	Official (%)	Experimental (MSI-GA-CE) (%)	Percentage Point Change between Official and Experimental	Change between Official and Experimental (%)
2000	11.3	12.3	1.0	8.8
2001	11.7	12.9	1.2	10.3
2002	12.1	13.2	1.1	9.0
2003	12.5	13.4	1.0	7.9
2004	12.8	13.4	0.6	4.7
2005	12.6	13.3	0.7	5.6
2006	12.3	13.6	1.3	10.6
2007	12.5	15.3	2.8	22.4
2008	13.2	15.8	2.6	19.7
Average	12.3	13.7	1.4	11.1

Data Source: U.S. Census Bureau, Official and National Academy of Sciences (NAS) Based Poverty Rates: 1999 to 2008, accessed at http://www.census.gov/hhes/www/povmeas/web_tab4_nas_measures_historical.xls

The Experimental Measures of Poverty by Age Group, 2000 to 2008

The experimental poverty rate for the older population was consistently higher than for the entire population during the nine-year period. The average experimental poverty rate of older persons was 3.6 percentage points higher than that for the entire population (17.3 percent versus 13.7 percent) (figure 1).

Of three age groups examined (older adults, younger adults, and children), older adults had the lowest official poverty rate but the highest experimental rate throughout virtually all of the 2000 to 2008 period. The average official poverty rate of older Americans during this period was 10.0 percent, 7.4 percentage points lower than the average official poverty rate of children.

During the same period, the average experimental poverty rate of the older population was 17.3 percent, 1.4 percentage points higher than that of children (table 2).

Compared to the official poverty rate, the experimental rate was higher for adults but lower for children. In 2008, the experimental poverty rate for persons age 65 or older was 18.7 percent, almost double their official poverty rate of 9.7 percent. For children, the experimental poverty rate was 17.9 percent, 1.1 percentage points lower than their official poverty rate of 19.0 percent.

The experimental poverty measure for children is lower than the official measure because the new measure includes refundable tax credits and noncash transfers such as the

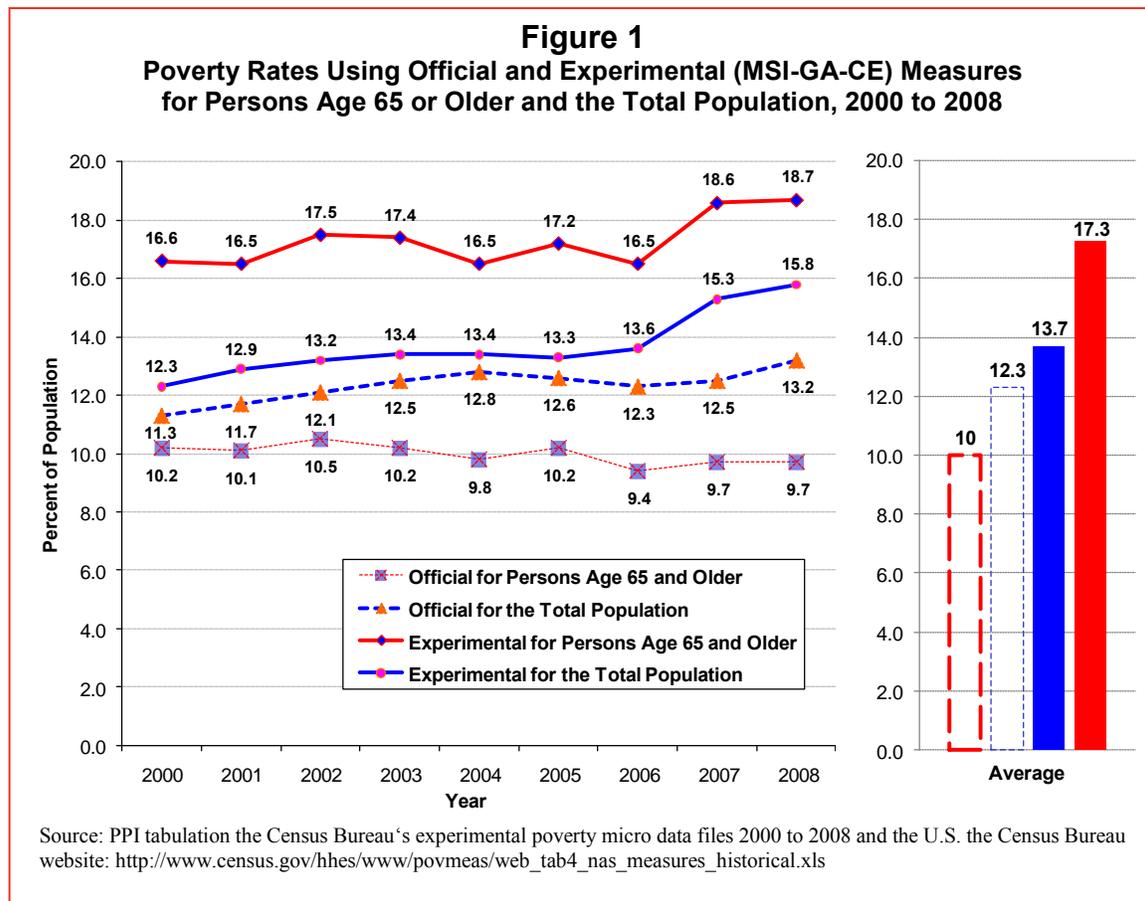


Table 2
Poverty Rates under the Official and the Experimental Poverty Measures by Age Group, 2000–2008

Year	Age under 18			Age 18 to 64			Age 65 and Older		
	Official (%)	Experimental (MSI-GA-CE) (%)	Percentage Point Change between Official and Experimental	Official (%)	Experimental (MSI-GA-CE) (%)	Percentage Point Change between Official and Experimental	Official (%)	Experimental (MSI-GA-CE) (%)	Percentage Point Change between Official and Experimental
2000	16.1	14.5	-1.6	9.4	10.4	1.0	10.2	16.6	6.4
2001	16.3	15.6	-0.7	10.2	11.5	1.3	10.1	16.5	6.4
2002	16.7	15.2	-1.5	10.6	11.7	1.1	10.5	17.5	7.0
2003	17.6	16.1	-1.5	10.8	12.1	1.3	10.3	17.4	7.1
2004	17.8	15.1	-2.7	11.2	12.2	1.0	9.8	16.5	6.7
2005	17.6	14.9	-2.7	11.0	11.9	0.9	10.2	17.2	7.0
2006	17.4	15.6	-1.8	10.8	12.3	1.5	9.4	16.5	7.1
2007	18.0	17.9	-0.1	10.9	13.6	2.7	9.7	18.6	8.9
2008	19.0	17.9	-1.1	11.7	14.3	2.6	9.7	18.7	9.0
Average	17.4	15.9	-1.5	10.7	12.2	1.5	10.0	17.3	7.3

Data Source: AARP Public Policy Institute tabulations of the U.S. Census Bureau's Experimental Poverty Measures Research Data, various years.

Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps, in income.

The EITC in particular is widely viewed as highly successful in reducing poverty and supporting low-income workers with children.⁹ Because taxes and tax credits are ignored in the official poverty measure, the effect of the EITC is missing from the official poverty estimate. The impact of the EITC and noncash transfers is captured in the experimental measure, and this reduces the estimated poverty rate.

However, other differences between the experimental and official measures, such as a more realistic accounting of expenses that low-income working families bear, partially offset the impact of counting tax credits in income. As a result, the experimental child poverty rate is not very different from the official rate in some years.

In contrast, elderly poverty is consistently much higher under the experimental measure because it explicitly accounts for out-of-pocket medical expenses. The impacts of medical expenses and of eliminating the age-specific poverty

threshold are examined in the last two sections of this Fact Sheet.

The Age Composition of the Poor Using Official and Experimental Measures

The large increase in the poverty rate for older persons under the experimental poverty measure also changes the distribution of the poor population among the three age groups. The new age distribution of the poor consists of a larger proportion of older persons than is identified by the official poverty measure.¹⁰

In 2008, persons age 65 or older were 12.5 percent of the total population. Under the official poverty measure, the older poor were 9.1 percent of the total poor population, but under the experimental poverty measure they were 15.1 percent (table 3).

In 2008, children under age 18 were 24.7 percent of the total population. Children were 36 percent of the total poor population under the official poverty measure and 25.4 percent of the total poor population under the experimental measure.

Table 3
Distribution of the Total Population and the Poor Population by Age Group, 2008

	Total Population (%)	Poor Population Using the Official Poverty Measure (%)	Poor Population Using the Experimental Poverty Measure (%)
Total Population	100.0	100.0	100.0
Under Age 18	24.7	36.0	25.4
Age 18 to 64	62.8	54.9	59.5
Age 65 and Over	12.5	9.1	15.1

Data Source: AARP Public Policy Institute tabulations of the U.S. Census Bureau's Experimental Poverty Measures Research Data, 2008.

Thus, older persons were underrepresented among the poor based on the current official poverty measure, but overrepresented using the experimental measure. Children were overrepresented among the poor using both measures, but the overrepresentation was much lower in the experimental measure.

Demographic Characteristics of the Older Poor, Using Official and Experimental Measures

Among older persons, the oldest old, women, minorities, nonmarried, and those living alone had a higher poverty rate than the others under both the official and the experimental poverty measures. The disparity between the official and the experimental poverty rates also tended to be larger for those older persons than for others. In 2008 under the experimental poverty measure—

- 22.7 percent of persons age 80 or older were in poverty, the highest rate of all age groups (table 4).
- 21.6 percent of older women and 15 percent of older men were in poverty.
- 28.8 percent of African Americans and 31.5 percent of Hispanics were in poverty.
- 25.3 percent of Asians and others were in poverty. The 12.9 percentage

point increase in the experimental poverty rate relative to the official rate for Asians and others was the largest of any group examined.

- About one-fourth of divorced or separated older persons (24.5 percent), never-married older persons (24.7 percent), and widowed persons (26.1 percent) were in poverty.

Living arrangements also influenced the poverty status of older persons. The experimental poverty rate was 27.5 percent for older persons living alone, 13.1 percentage points higher than for older persons living with others.

Under both poverty measures, older persons in poor health were more likely to be poor than older person in better health. For example, the experimental poverty rate was 27.4 percent for older persons in poor health and 12.3 percent for older persons in excellent health.

The Current Official Poverty Threshold Understates Persons Age 65 or Older in Poverty

The official poverty threshold for older persons in 2008 (\$10,326 for an individual) is about 8 percent lower than that for persons under age 65 (\$11,201).¹¹ The official poverty rate for older persons would be higher if the same thresholds were applied to both elderly

Table 4
Poverty Rates under the Official and the Experimental Poverty Measures
for Older Persons by Demographic Characteristics, 2008

Demographic Characteristics	Official		Experimental (MSI-GA-CE)		Percentage Point Change between Official and Experimental
	N (_000)	%	N (_000)	%	
Persons Age 65 and Over	3,656	9.7	7,077	18.7	9.1
Age					
Age 65 to 69	881	7.5	1,750	14.8	7.3
Age 70 to 74	829	9.7	1,490	17.4	7.7
Age 75 to 79	790	10.8	1,553	21.2	10.4
Age 80 and Over	1,155	11.5	2,284	22.7	11.2
Sex					
Men	1,092	6.7	2,441	15.0	8.3
Women	2,564	11.9	4,635	21.6	9.6
Race					
White	2,308	7.6	4,926	16.2	8.6
African American	638	20.0	919	28.8	8.8
Asian and Others	184	12.4	375	25.3	12.9
Hispanic	525	19.3	856	31.5	12.2
Marital Status					
Married	1,102	5.2	2,828	13.4	8.2
Widowed	1,583	14.4	2,864	26.1	11.7
Divorced or Separated	694	17.1	996	24.5	7.4
Never-married	276	17.6	389	24.7	7.2
Living Arrangement					
Living Alone	2,127	17.2	3,408	27.5	10.3
Living with Others	1,529	6.0	3,669	14.4	8.4
Health Condition					
Excellent	210	5.5	472	12.3	6.8
Good	486	5.8	1,149	13.7	7.9
Fair	2,197	10.2	4,318	20.1	9.9
Poor	763	18.3	1,138	27.4	9.0

Data Source: AARP Public Policy Institute tabulations of the U.S. Census Bureau's Experimental Poverty Measures Research Data, 2008.

and nonelderly persons. For example, the official poverty rate for older persons was 9.7 percent in 2008. If the poverty thresholds used for persons under age 65 were applied to persons age 65 and older, the poverty rate for older persons would be 11.5 percent.

Different poverty thresholds are used in the current official poverty measure for

the older population because the measure incorrectly assumes that older Americans require less income to meet basic needs than do others.¹² However, an important fact is that older persons face higher health care expenditures, and health care costs have risen rapidly over the past decades.

Accounting for Health Care Expenditures Increases the Estimated Poverty Rate for Older Persons

The official poverty measure does not directly account for the cost of health care, either in the needs standard or in the income measure. In the experimental poverty measure, however, family medical out-of-pocket expenses are subtracted from family income as the NAS panel recommended.

To show the impact of inclusion of health care expenditures on poverty measures for the older population, we use a test poverty measure that follows the current official poverty measure except that it subtracts medical out-of-pocket expenditures from income.¹³

Table 5 shows that in 2008, subtracting medical expenses from income increases the poverty rate for the older population to 17.8 percent, 8.0 percentage points greater than the official poverty measure (9.7 percent). For persons age 80 and over, accounting for medical expenses increases the poverty rate to

22.1 percent, 10.6 percentage points higher than the official rate of 11.5 percent. In contrast, subtracting medical costs increases the poverty rate by only 2.5 percentage points for persons age 18 to 64 (14.1 percent versus 11.6 percent), and by 2.2 percentage points (21.1 percent versus 18.9 percent) for children.

The experimental poverty measure data and medical expenditure data highlight the importance of accurately measuring and accounting for health care costs. More important, controlling health care costs is critical for financial security, particularly for older Americans.

Conclusion

Policymakers need a measure that accurately depicts who is poor and what policies are effective in mitigating poverty. Accurate measures are even more important in tough economic times, when federal and state budgets for safety net programs are stretched and many families are in need of assistance.

Age	Official Poverty Measure (%)	Poverty Measure After Accounting for Out-of-Pocket Medical Expenses* (%)	Percentage Point Change	Percentage Change (%)
All	13.2	16.3	3.1	23.5
Under Age 18	18.9	21.1	2.2	11.7
Age 18 to 64	11.6	14.1	2.5	21.1
Age 65 and Over	9.7	17.8	8.0	82.4
Age 65 to 69	7.5	13.1	5.7	76.1
Age 70 to 74	9.7	17.3	7.6	78.1
Age 75 to 79	10.8	19.7	8.9	82.2
Age 80 and Over	11.5	22.1	10.6	91.9

* The alternative measure is the same as the current official poverty measure, except that medical out-of-pocket expenses are subtracted from income.
Data Source: AARP Public Policy Institute tabulations of the U.S. Census Bureau's Experimental Poverty Measures Research Data, 2008.

Impact of Modernizing the American Poverty Measure on the Poverty Status of Older Persons

The current official poverty measure is woefully out of date. Fortunately, research conducted over the past twenty years provides a sound foundation for creating a new poverty measure. The Measuring American Poverty Act and Supplemental Poverty Measure are important steps toward implementing a new measure and informing effective antipoverty policy.

¹ See U.S. Bureau of the Census, Observations from the Interagency Technical Working Group on Developing a Supplemental Poverty Measure, March 10, 2010, accessed at http://www.census.gov/hhes/www/povmeas/SPM_TWGObservations.pdf; and the Measuring American Poverty Act, 2009 H.R. 2909, sponsored by Rep. James McDermott, and S.1625, sponsored by Sen. Chris Dodd.

² The official U.S. poverty measure was originally developed in 1963–1964 by Mollie Orshansky at the Social Security Administration. Orshansky based her poverty thresholds on the economy food plan, which was the cheapest of four food plans developed by the U.S. Department of Agriculture (USDA), and on the USDA's 1955 Household Food Consumption Survey, which found that families of three spent, on average, about one-third of their income on food. Orshansky thus based the initial poverty measure on three times the cost of the economy food budget for families of different sizes. The thresholds are updated annually to reflect overall price inflation; otherwise, this basic framework has been unchanged for more than forty years. See Gordon M. Fisher, "The Development and History of the Poverty Thresholds," *Social Security Bulletin* 55, no. 4 (1992): 3–14 for a comprehensive review.

³ The official poverty measure in the United States is used for more than statistical purposes. It is also used to set guidelines for eligibility for public programs and to distribute federal funds to state and local governments. The MAP Act stipulates that program eligibility and funding will not be affected by the act. Similarly, the SPM will not replace the official measure but will be presented along with it; hence, program eligibility and funding is not affected. However, the current official poverty measure does not adequately identify who is in need of assistance. Thus, in the future, eligibility and funding should be reevaluated in light of the new measure.

⁴ See Rebecca M. Blank, "How to Improve Poverty Measurement in the United States,"

Journal of Policy Analysis and Management 27, no. 2 (2009): 233–254; and Patricia Ruggles, *Drawing the Line* (Washington, DC: Urban Institute Press, 1990) for examples of this consensus view.

⁵ See Constance F. Citro and Robert T. Michael, eds., *Measuring Poverty: A New Approach* (Washington, DC: National Academy Press, 1995).

⁶ The NAS panel noted that medical expenses could be subtracted from disposable income, or they could be included as a basic need in defining the threshold. The MAP Act of 2009 and the Supplemental Poverty Measure to be produced next year subtract medical expenses from income, so that is the type of measure analyzed in this Fact Sheet. The poverty estimates resulting from the alternative variations of the proposed NAS measures are similar.

⁷ See U.S. Bureau of the Census, Tables of Alternative Poverty Estimates, available at <http://www.census.gov/hhes/www/povmeas/tables.html> and Experimental Poverty Measures research Data files, available at <http://www.census.gov/hhes/www/povmeas/datafiles.html>

⁸ The Census Bureau produces four alternative measures. This Fact Sheet uses the measure based on the most recent Consumer Expenditure Survey data, adjusted for geographic differences in the cost of living, and deducting medical out-of-pocket spending as an expense out of income. This measure (known as MSI-GA-CE) most closely reflects the NAS panel's recommendations. See <http://www.census.gov/hhes/www/povmeas/povmeas.html>

⁹ The EITC is the largest form of federal cash assistance, providing \$50.7 billion to 24.8 million low- and moderate-income families for tax year 2008. See Table A of Internal Revenue Service, *Individual Income Tax Returns, 2008*, Publication 1304, July 2010. In 2006, the EITC lifted about 4.5 million children and adults out of poverty and reduced the overall poverty rate by 1.5 percentage points, though this is not reflected in official estimates. Noncash, nonmedical benefits such as SNAP lifted nearly an additional 4.0 million people out of poverty, reducing the rate by another 1.3 points. See U.S. Bureau of the Census, Table RD-REV POV01 (comparing definition 3d to 3e and definition 3f to 4), accessed at http://pubdb3.census.gov/macro/032007/altpov/newpov01_001.htm

¹⁰ Kathleen Short, Thesia I. Garner, David Johnson, and Patricia Doyle, *Experimental Poverty Measures: 1990 to 1997*, U.S. Bureau of

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the Census: Current Population Report P60-205 (Washington, DC: U.S. Government Printing Office, 1999).

¹¹ See <http://www.census.gov/hhes/www/poverty/data/threshld/thresh08.html>

¹² See Ruggles, *Drawing the Line*, for a discussion of this history and the merits and disadvantages of separate thresholds for the elderly.

¹³ Medical expenses have not been included in the Current Population Survey, but are added to the survey beginning in March 2010 (for 2009 measures). For previous years, medical expenses estimated from separate expenditure surveys were imputed to the Current Population Survey families. See appendix A of Kathleen Short, *Experimental Poverty Measures: 1999*, Current Population Reports P60-216, October

2001, accessed at <http://www.census.gov/prod/2001pubs/p60-216.pdf>. See also <http://www.census.gov/hhes/www/povmeas/topicpg4.html> for a series of Census Bureau working papers on estimating the cost of medical care for the purpose of poverty measurement.

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