

THE NECESSITY FOR A NEW POVERTY MEASURE

The Inaccuracy of the Poverty Measure

News reports about the percentage of children “living below poverty” may not accurately reflect just how many children live in families that are struggling to meet their basic needs. While the official poverty measure, commonly referred to as the federal poverty level or FPL, is supposed to indicate how much it costs a family to live at a bare minimum, by many accounts the actual costs are roughly twice the FPL.

People who fall below the official poverty level are deemed “poor.” In 2008, the FPL for a family of three was \$17,600 and for a family of four, \$21,200.¹ This leaves open the assumption that anyone making more than the poverty level is “not poor.” But whether a family makes \$1, \$1,000, or even \$10,000 above the FPL, that family is likely struggling to make ends meet.

The poverty measure was created in the 1960s and was based on surveys conducted in the 1950s of low-income families.² Based on these surveys, families were spending one-third of their budget on food.³ An economist and statistician at the Social Security Administration, Mollie Orshansky, simply multiplied the costs of the U.S. Department of Agriculture’s economy food plan by three in order to determine the minimum income necessary to provide for a family.⁴

Today, however, food constitutes about one-seventh of a family’s budget, making the poverty measure an inadequate one for assessing a sufficient standard of living for families. Moreover, a much smaller percentage of families needed full-time child care in the 1950s. Today, child care is a major expense for working families. The measure also does not include categories for costs like housing, transportation, or health care – all of which families need to survive. Annual updates to the measure are not based on actual costs and household spending patterns but instead are based on the Consumer Price Index (CPI).⁵

The poverty measure also does not take location and family configurations into consideration. It will cost more to raise a family in San Francisco than in Oklahoma City.⁶ Price increases and changing spending patterns are also

not included in the poverty measure. The costs of housing and health care, for example, have far outpaced the CPI. All of these factors make it very difficult for families to provide the basic necessities for their children, let alone improve their situation, even when they live at 200 percent – or double – the official FPL.

Basic Family Budget

The Basic Family Budget⁷ gives a more realistic measure of how much it costs to support a family. Seven expenditures are included in this budget: housing, food, child care, transportation, health care, other necessities, and taxes.

Basic Family Budgets are calculated for communities all across the U.S. for six family types—one- and two-parent families with one, two, and three children. They are conservative and do not include savings, restaurant meals, emergency funds, or renter’s insurance. In New Mexico, budgets are available for Albuquerque, Las Cruces, Santa Fe, and Farmington. There is also a budget for the rural part of the state.



Basic Family Budget for Albuquerque						
Monthly Items	1 Parent 1 Child	1 Parent 2 Children	1 Parent 3 Children	2 Parents 1 Child	2 Parents 2 Children	2 Parents 3 Children
Housing	\$ 760	\$ 760	\$ 1,107	\$ 760	\$ 760	\$ 1,107
Food	\$ 317	\$ 465	\$ 616	\$ 514	\$ 643	\$ 776
Child Care	\$ 550	\$ 998	\$ 1,447	\$ 550	\$ 998	\$ 1,447
Transportation	\$ 339	\$ 339	\$ 339	\$ 482	\$ 482	\$ 482
Health Care	\$ 203	\$ 266	\$ 293	\$ 261	\$ 325	\$ 351
Other Necessities	\$ 259	\$ 294	\$ 414	\$ 306	\$ 337	\$ 453
Taxes	\$ 208	\$ 262	\$ 533	\$ 262	\$ 294	\$ 532
Total	\$ 2,636	\$ 3,384	\$ 4,749	\$ 3,135	\$ 3,839	\$ 5,148
Annual Total	\$ 31,632	\$ 40,608	\$ 56,988	\$ 37,620	\$ 46,068	\$ 61,776

Source: Economic Policy Institute (December 2008)

Basic Family Budget for Las Cruces						
Monthly Items	1 Parent 1 Child	1 Parent 2 Children	1 Parent 3 Children	2 Parents 1 Child	2 Parents 2 Children	2 Parents 3 Children
Housing	\$ 527	\$ 527	\$ 727	\$ 527	\$ 527	\$ 727
Food	\$ 317	\$ 465	\$ 616	\$ 514	\$ 643	\$ 776
Child Care	\$ 550	\$ 998	\$ 1,447	\$ 550	\$ 998	\$ 1,447
Transportation	\$ 343	\$ 343	\$ 343	\$ 468	\$ 468	\$ 468
Health Care	\$ 203	\$ 266	\$ 293	\$ 261	\$ 325	\$ 351
Other Necessities	\$ 203	\$ 238	\$ 323	\$ 250	\$ 281	\$ 361
Taxes	\$ (19)	\$ 38	\$ 352	\$ 103	\$ 171	\$ 343
Total	\$2,124	\$ 2,875	\$ 4,101	\$ 2,673	\$ 3,413	\$ 4,473
Annual Total	\$25,484	\$ 34,500	\$ 49,212	\$ 32,076	\$ 40,956	\$ 53,676

Source: Economic Policy Institute (December 2008)

Basic Family Budget for Santa Fe						
Monthly Items	1 Parent 1 Child	1 Parent 2 Children	1 Parent 3 Children	2 Parents 1 Child	2 Parents 2 Children	2 Parents 3 Children
Housing	\$ 884	\$ 884	\$ 1,157	\$ 884	\$ 884	\$ 1,157
Food	\$ 317	\$ 465	\$ 616	\$ 514	\$ 643	\$ 776
Child Care	\$ 550	\$ 998	\$ 1,447	\$ 550	\$ 998	\$ 1,447
Transportation	\$ 343	\$ 343	\$ 343	\$ 468	\$ 468	\$ 468
Health Care	\$ 203	\$ 266	\$ 293	\$ 261	\$ 325	\$ 351
Other Necessities	\$ 289	\$ 324	\$ 426	\$ 336	\$ 367	\$ 465
Taxes	\$ 315	\$ 355	\$ 558	\$ 319	\$ 347	\$ 550
Total	\$ 2,901	\$ 3,635	\$ 4,840	\$ 3,332	\$ 4,032	\$ 5,214
Annual Total	\$34,812	\$ 43,620	\$ 58,080	\$ 39,984	\$ 48,384	\$ 62,568

Source: Economic Policy Institute (December 2008)

Basic Family Budget for Farmington						
Monthly Items	1 Parent 1 Child	1 Parent 2 Children	1 Parent 3 Children	2 Parents 1 Child	2 Parents 2 Children	2 Parents 3 Children
Housing	\$ 579	\$ 579	\$ 765	\$ 579	\$ 579	\$ 765
Food	\$ 317	\$ 465	\$ 616	\$ 514	\$ 643	\$ 776
Child Care	\$ 550	\$ 998	\$ 1,447	\$ 550	\$ 998	\$ 1,447
Transportation	\$ 343	\$ 343	\$ 343	\$ 468	\$ 468	\$ 468
Health Care	\$ 203	\$ 266	\$ 293	\$ 261	\$ 325	\$ 351
Other Necessities	\$ 215	\$ 251	\$ 332	\$ 263	\$ 294	\$ 370
Taxes	\$ 23	\$ 101	\$ 370	\$ 142	\$ 196	\$ 361
Total	\$ 2,230	\$ 3,003	\$ 4,166	\$ 2,777	\$ 3,503	\$ 4,538
Annual Total	\$26,760	\$ 36,036	\$ 49,992	\$ 33,324	\$ 42,036	\$ 54,456
Source: Economic Policy Institute (December 2008)						

Basic Family Budget for Rural New Mexico						
Monthly Items	1 Parent 1 Child	1 Parent 2 Children	1 Parent 3 Children	2 Parents 1 Child	2 Parents 2 Children	2 Parents 3 Children
Housing	\$ 523	\$ 523	\$ 686	\$ 523	\$ 523	\$ 686
Food	\$ 317	\$ 465	\$ 616	\$ 514	\$ 643	\$ 776
Child Care	\$ 550	\$ 998	\$ 1,447	\$ 550	\$ 998	\$ 1,447
Transportation	\$ 390	\$ 390	\$ 390	\$ 524	\$ 524	\$ 524
Health Care	\$ 219	\$ 281	\$ 306	\$ 296	\$ 358	\$ 382
Other Necessities	\$ 202	\$ 238	\$ 313	\$ 249	\$ 280	\$ 351
Taxes	\$ 18	\$ 94	\$ 355	\$ 156	\$ 203	\$ 357
Total	\$ 2,219	\$ 2,989	\$ 4,113	\$ 2,812	\$ 3,529	\$ 4,523
Annual Total	\$26,628	\$ 35,868	\$ 49,356	\$ 33,744	\$ 42,348	\$ 54,276
Source: Economic Policy Institute (December 2008)						

In many parts of New Mexico, it costs more than twice the FPL for families to provide the basics for their children. Over the years, wages have not kept up with inflation, and hence, paychecks have not stretched as far to pay for the rising cost of necessities.⁸ Families that were struggling before the current economic slump are likely to feel the pressure on their budgets even more acutely now. For many years, advocates have called for redefining the poverty measure so data on the number of those experiencing hardship, and to what extent, is more accurately reflected. With the economy foremost in policymakers' minds, the time for doing that should be now.

Why Implement a New Poverty Measure?⁹

One major reason for changing the poverty measure, in addition to its inaccuracy, is that it only measures cash income, excluding work supports, such as the Earned Income Tax Credit (EITC). Since these supports are not counted as cash income, they do not affect a beneficiary's poverty status; hence the official poverty statistics do not reflect how these supports are helping people.

When work supports are excluded in the calculation of the FPL, it is easier for opponents of these supports to argue that public funding for them is unnecessary. In con-

trast, Social Security and Supplemental Security Income, both of which are cash assistance programs, have been shown to contribute significantly to declines in poverty among the elderly population.¹⁰ Because these benefits are counted as cash income and included in the FPL calculations, recipients' improved economic circumstances are reflected in the official poverty data.

In 1995, the National Academy of Sciences (NAS) issued recommendations for updating the FPL. The recommendations called for revising the poverty threshold to include costs such as housing, adjusting for various family sizes and geographic locations, and changing the resource definition, i.e. counting work supports. Expenses that were not included, however, were child care and medical costs.¹¹

If work supports and household costs are taken into account, policymakers can assess the true needs of their

constituents. New York City recently created its own poverty measure, which includes these costs and supports.¹² While the resulting data showed an increase in the general poverty rate, fewer people were considered extremely poor (defined as 50 percent of FPL) because public aid was included in the calculations.¹³ The poverty rate for the elderly also increased because the new measure counts out-of-pocket medical expenses.¹⁴

Updating the FPL measure to reflect these realities is long overdue in the fight to reduce poverty. The effectiveness of work support programs needs to be more accurately assessed in this effort. Moreover, if costs for health care, high quality child care, transportation, and housing are included, policymakers and the general public will better understand how much it truly costs for families to make ends meet.



END NOTES for The Necessity for a New Poverty Measure

¹ U.S. Department of Health and Human Services

² Jared Bernstein, *Crunch: Why Do I Feel So Squeezed and Other Unsolved Economic Mysteries*, (Washington, DC: Economic Policy Institute, 2008), 38.

³ Ibid.

⁴ *Frequently Asked Questions Related to the Poverty Guidelines and Poverty*, (Washington, DC: U.S. Department of Health and Human Services), accessed November 10, 2008.

⁵ Richard Bavier, *Updating the Poverty Thresholds with Expenditure Data*, Poverty Measure Working Papers, Poverty Measurement Studies and Alternative Measures, (Washington, DC: U.S. Census Bureau), accessed November 12, 2008, www.census.gov/hhes/www/povmeas/papers/povupdat.html

⁶ The Economic Policy Institute's Basic Family Budget estimates that it costs \$60,826 for two parents and two children to live modestly in San Francisco, while it costs \$42,106 for that same family in Oklahoma City.

⁷ James Lin and Jared Bernstein, *2008 Economic Policy Institute Family Budgets: Technical Documentation*, (Washington, DC: Economic Policy Institute), www.epi.org. For an explanation of how costs are calculated, please see Appendix A on page 75.

⁸ Bernstein, 20-24.

⁹ Rebecca M. Blank, *What Do the Recently-Released U.S. Poverty Numbers Tell Us?*, (Washington, DC: Brookings Institution, 2008), www.brookings.edu. See also John Iceland, Kathleen Short, Thesia Garner, and David Johnson, *Are Children Worse Off? Evaluating Child Well-Being Using a New (and Improved) Measure of Poverty*, (Washington, DC: U.S. Census Bureau, U.S. Bureau of Labor Statistics, 1999), www.census.gov.

¹⁰ See Thomas Hungerford, Matthew Rasette, Howard Iams, and Melissa Koenig, *Trends in the Economic Status of the Elderly, 1976 – 2000*, Social Security Bulletin, Vol. 64, No. 3, 2001/2002, (Washington, DC: Office of Policy, Social Security Administration, 2003).

¹¹ Nancy K. Cauthen, *Hearing on Establishing a Modern Poverty Measure*, (New York, NY: National Center for Children in Poverty, Mailman School of Public Health, Columbia University, 2008), 5.

¹² Rachel Swarns, "Bipartisan Calls for New Federal Poverty Measure," *The New York Times*, September 2, 2008, A14.

¹³ Ibid.

¹⁴ Ibid.

