



Measuring Income and Poverty in the United States

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This fact sheet discusses how the U.S. government measures poverty, why the current measure is inadequate, and what alternative ways exist to measure economic hardship.

How does the United States measure poverty?

Most measures of poverty, in the U.S. and elsewhere, focus narrowly on income rather than including other aspects of economic status, such as assets or debt. Income poverty is measured by one of two standards—“absolute” or “relative” measures. Absolute measures of poverty—like the official U.S. measure—set an income threshold below which an individual or family is considered to be poor, regardless of general living standards. Relative measures typically set the poverty level at a percent of median income and therefore vary with the economic fortunes of the population as a whole.

The U.S. measures poverty by a standard developed more than 40 years ago, when data indicated that families spent about one-third of their income on food. The official poverty level was set by multiplying food costs by three. Since then, the same figure has been updated annually for inflation but has otherwise remained unchanged. The federal poverty level is adjusted by family size but is the same across the continental U.S. (see table).

Federal poverty guidelines, 2007¹

Persons in family or household	48 contiguous states and D.C.	Alaska	Hawaii
1	\$10,210	\$12,770	\$11,750
2	\$13,690	\$17,120	\$15,750
3	\$17,170	\$21,470	\$19,750
4	\$20,650	\$25,820	\$23,750
5	\$24,130	\$30,170	\$27,750
6	\$27,610	\$34,520	\$31,750
7	\$31,090	\$38,870	\$35,750
8	\$34,570	\$43,220	\$39,750
For each additional person add:	\$3,480	\$4,350	\$4,000

Why is the current poverty measure inadequate?

The current poverty measure is flawed in two ways.

1) **The current poverty level—that is, the specific dollar amount—is based on outdated assumptions about family expenditures.**

Food now comprises far less than a third of an average family's expenses, while the costs of housing, child care, health care, and transportation have grown disproportionately. Thus, the poverty level does not reflect the true cost of supporting a family. In addition, the current poverty measure is a national standard that does not adjust for the substantial variation in the cost of living from state to state and between urban and rural areas.

More accurate estimates of typical family expenses, and adjustments for local costs, would produce a substantially higher poverty threshold.

2) **The method used to determine whether a family is poor does not accurately count family resources.**

When determining if a family is poor, income sources counted include earnings, interest, dividends, Social Security, and cash assistance. But income is counted before subtracting payroll, income, and other taxes, overstating income for some families. On the other hand, the federal Earned Income Tax Credit isn't counted either, underestimating income for other families. Also, in-kind government benefits that assist low-income families—food stamps, Medicaid, and housing and child care assistance—are not taken into account. This means that official poverty statistics cannot be used to analyze the effectiveness of these programs.

Are there alternative ways to measure poverty?

Considerable research has been conducted on better methods to measure income poverty, but to date, the political will necessary to implement change has been lacking. In the early 1990s, Congress asked the National Academy of Sciences (NAS) to investigate alternative measures. The NAS panel of experts issued a report in 1995 that recommended revising the poverty level and the method of determining which families are poor.² The panel's recommendations included the following:

- Create a method that more accurately reflects current family expenses.
- Vary the poverty threshold by region, adjusting for regional variation in housing costs.
- Use post-tax income when comparing family income to the poverty level.
- Include near-cash benefits, including food stamps and housing assistance, as part of a family's resources.

If the NAS recommendations were adopted, many more people would be considered officially poor. But even these recommendations underestimate the cost of family expenses and thus produce poverty thresholds well below what it takes to make ends meet, for example, increasing the poverty level for a family of four by only about \$3,000 annually.³

How much does it really take to make ends meet?

Given that the federal poverty level grossly understates how much it takes to support a family, researchers have developed budgets that realistically quantify basic living costs in specific localities.⁴ Building on earlier efforts, NCCP has developed Basic Needs Budgets for 70 localities across 13 states.⁵

Basic needs budgets for a family of four, in selected urban, suburban, and rural localities*

	URBAN New York, NY	URBAN Houston, TX	SUBURBAN Aurora, IL	RURAL Alamosa County, CO
Rent and utilities	\$13,596	\$8,916	\$10,812	\$6,228
Food	\$7,295	\$7,295	\$7,295	\$7,295
Child care	\$16,896	\$8,060	\$9,924	\$5,481
Health insurance	\$1,812	\$2,568	\$2,212	\$2,768
Transportation	\$1,680	\$3,570	\$4,618	\$5,257
Other necessities	\$5,641	\$4,377	\$4,889	\$3,651
Payroll and income taxes	\$8,221	\$716	\$3,330	\$775
TOTAL	\$55,140	\$35,502	\$43,079	\$31,455

*Assumes two-parent family with one preschool-aged and one school-aged child.

Source: NCCP's Basic Needs Budget Calculator (soon to be available online at www.nccp.org). Results are based on the following assumptions: children are in center-based care settings while their parents work (the older child is in after-school care); family members have access to employer-based health insurance when not enrolled in public coverage; in New York, family relies on public transportation, in all other locations, costs reflect private transportation.

Across the country, families on average need an income of about twice the official poverty level, or roughly \$40,000 for a family of four, to meet basic needs. In a high-cost city like New York, the figure is over \$50,000, whereas in rural areas, the figure is in the low \$30,000s.

In short, even if the official poverty measure is revised along the lines suggested by the NAS, it would remain a measure of deprivation and severe hardship rather than a minimal, decent standard of living.

Endnotes

This fact sheet was prepared by Nancy K. Caughen and Sarah Fass.

1. The federal poverty guidelines are used for administrative purposes, such as determining financial eligibility for benefit programs. For statistical purposes, researchers use a different—but quite similar—version of the federal poverty measure, the federal poverty thresholds, issued by the U.S. Census Bureau. Both the guidelines and the thresholds are commonly referred to as the federal poverty level (FPL). For more information about these federal guidelines, see the U.S. Department of Health and Human Services <aspe.hhs.gov/poverty/07poverty.shtml>.
2. Betson, D.; Citro, C.; & Michael, R. (2000). Recent developments for poverty measurement in U.S. official statistics. *Journal of Official Statistics*, 16(2), pp. 87-111.
3. Bernstein, J. (2007). *More poverty than meets the eye* (Economic Snapshots April 11, 2007). Washington, DC: Economic Policy Institute. Accessed April 23, 2007 at <www.epi.org/content.cfm/webfeatures_snapshots_20070411>.
4. These efforts include the Self-Sufficiency Standards developed by Wider Opportunities for Women and the Economic Policy Institute's Basic Family Budgets.
5. NCCP's Basic Needs Budgets are derived from its Family Resource Simulator <www.nccp.org/modeler/modeler.cgi> and will soon be available in an online calculator.