

## MEMORANDUM

TO: Bay Area Regional Steering Committee  
FROM: HomeBase  
RE: Alternative Poverty Threshold Measures  
DATE: July 7, 2006

---

### Background

The accuracy and utility of the federal poverty threshold has been an ongoing issue since not long after its inception. The RSC addressed the line measure as unrealistic in the 1980s and conducted public education and policy campaigns targeting the need for change, particularly in regards to the need for the threshold to account for geographical cost of living differences.

Prompted by the controversy, in 1992, the U.S. Census Bureau commissioned the National Academy of Sciences to study the issue and make recommendations. The panel found that the threshold was inaccurate and new measures should be used. However, over a decade later, the measure has still not been changed.

With costs continuing to increase disproportionately in different regions, particularly in California, there has been a need to once again try and address the issue.

### What is the Federal Poverty Threshold?

The federal poverty threshold was developed in 1963 by Mollie Orshansky, an economist working for the Social Security Administration. Her intent was to develop an appropriate measure to assess the relative risks of low economic status.<sup>1</sup> The threshold she devised was based on estimated adequate annual food budgets. The measure assumed that families spend about one-third of their income on food, therefore, the poverty rate was set at three-times the amount of the estimated cost for an adequate diet.<sup>2</sup> While Orshansky did not intend for the measure to be used as a new general measure of poverty, nevertheless, the Office of Economic Opportunity adopted Orshansky's poverty threshold as a working definition of poverty for statistical, planning and budget purposes in May 1965.<sup>3</sup> Since then, the poverty threshold has been utilized as the general measure of poverty with only minor revisions and updating annually for inflation using the Consumer Price Index.<sup>4</sup>

### How is it used and what is its purpose?

The poverty threshold is a statistical tool used by state Housing and Human Services Departments to determine eligibility for certain federal programs including Food Stamps, State Children's Health Insurance Program, Job-Opportunities for Low-Income Individuals, School Lunch Program, Family Planning Services, Low-Income Energy Assistance Program, and Head Start.<sup>5</sup>

---

\* Food Stamps eligibility is set at 130% of the federal poverty line, SCHIP is at 250% of the federal poverty line, Job-Opportunities for Low-Income Individuals is at 100% of the federal poverty line, School Lunch Program is at 130% of the federal poverty line, Family Planning Services is at 100% of the federal poverty line, Low-Income Energy Assistance Program is at 150% of the federal poverty line, and Head Start is at 100% of the federal poverty line.

The threshold has more general implications. Besides determining eligibility in some federal programs, it is also used as a yardstick measure of poverty for studies, making predictions, and resource allocation. Therefore, having an inaccurate measure of poverty levels directly impacts low-income people's eligibility for programs, as well as effective planning, development, and allocation of services for low-income people.

### What does it mean to California?

The current poverty threshold measures are problematic for several reasons. First, it does not take into consideration costs like housing, transportation, health care, and catastrophic events.<sup>6</sup> Second, they do not account for regional variations in cost of living.

#### *The Current System Is Not Based on Costs Other Than Food*

As discussed above, the poverty threshold was developed based on the assumption that one-third of a family's budget would be for food. It does not take into account the costs of housing, childcare, transportation, etc. These unaccounted for costs are significant. Housing costs have increased more than other costs since the time the threshold was adopted<sup>7</sup> and according to HUD, "families who pay more than 30 percent of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care."<sup>8</sup> Transportation costs have also increased and in 2004, low-income families spent 13% of their income on transportation.<sup>9</sup> Childcare is another major expense that is not accounted for in the measure. In 2006, the average cost of pre-school care in California was \$7,622 and for infant-care it was \$9,691.<sup>10</sup> Costs like childcare can have a very substantial impact, particularly in single-parent families.

#### *The Current System Does Not Factor in Cost of Living*

Another problem with the federal poverty threshold is that it is a nationally uniform figure that does not recognize cost of living variances.<sup>11</sup> Ignoring regional cost of living variations has several negative impacts on low-income people who live in high cost of living areas. First, as discussed above, if a family's income exceeds the federal poverty threshold, the family may not qualify for certain benefits even though the family has to pay more for housing and other necessary items than counterparts in lower cost of living areas.

For example, in San Francisco the fair market rate for a 2-bedroom apartment is \$1,539.<sup>12</sup> In comparison, in Bakersfield, a smaller rural city, the fair market rate for a 2-bedroom apartment is \$604.<sup>13</sup> In San Antonio, Texas, a city that is much larger than San Francisco, the fair market rent for a 2-bedroom apartment is only \$687. The federal poverty guideline for a family of four is \$20,000 annually or \$1,667 per month (gross).<sup>14</sup> In order to qualify for food stamps in California, a person must earn less than 130% of the federal poverty guideline. This would be \$26,000 annually (\$2,167 per month).<sup>15</sup> If a four-person family in San Francisco earned \$2,167 and paid the fair market rate for a 2-bedroom apartment, the family would have \$628 to pay the rest of its monthly expenses, but they would at least receive food stamps. If the family made \$26,001, it would not qualify for food stamps. Therefore, the family would have only \$628 to pay for food for four people and monthly expenses. Compare the same family living in Bakersfield, California making just over 130% of the federal poverty guideline. After paying rent, that family would have \$1,563 with which to pay monthly expenses, over twice the amount of its counterpart in San Francisco.

Related to this is the issue of the level of benefits a person who qualify for services receives. Benefits are based on income. Thus, a family in San Francisco that makes the same amount of money as its counterpart in Bakersfield will receive the same amount of food stamps, regardless of the fact that the food stamps will go further in Bakersfield where the cost of living is lower.

### Possible Alternatives to Consider

Option 1: In the study commissioned by the U.S Census Bureau in 1995, the NAS found that the current method had weaknesses in implementation and measurement and that it “d[id] not accurately reflect differences in poverty across population groups and across time . . . [and] that it would be inadvisable to retain the current measure for the future.”<sup>16</sup> The plan proposed by the Panel included using a variety of factors in deriving a budget allowance including food, clothing and shelter. Moreover, The National Academy of Sciences recommended accounting for cost variances across regions in order to more accurately reflect the expenditures of families.

Option 2: Another approach is to use the existing threshold as a starting measure, but then adjust according to various other factors including demographics and costs of living. This may be problematic not only because it would be difficult to agree on which demographic factors should be considered (e.g., number of parents in family, ethnicity, education level of adults, etc.) but also how to address regional variations (i.e. county vs. state, etc.).

Option 3: Alternatively, the RSC could advocate for using a different measure altogether. For example, some federal programs already use alternative measurements like median income to determine eligibility for their programs. For example, 75% of vouchers through the Section 8 Housing Voucher Program are for those at 30% or below the median income of their area.<sup>17</sup> In San Francisco, 30% of median income is \$2,829 per month. Thus, the same family who cannot qualify for federal programs like Food Stamps or Head Start, can qualify for Section 8 because that family is low-income when regional differences are considered.

Option 4: Finally, another option is to concentrate on increasing the incomes of wage earners by advocating for a “Living Wage” standard. Living wages refer to the minimum hourly wage necessary for a person to achieve some specific standard of living. Generally, this means that a person working forty hours a week, with no additional income, should be able to afford a specified quality or quantity of housing, food, utilities, transportation, health care, and recreation.<sup>18</sup> For instance, while the state minimum wage in California is \$6.75, according to the National Coalition on Low Income Housing, a worker in California would need to make \$22.09 per hour to afford a two-bedroom apartment.<sup>19</sup> Proponents argue that this standard would operate in lieu of the poverty threshold by keeping people off of government assistance in the first place. With a living wage, costs like those mentioned above would be factored in, creating an alternative to the poverty threshold. This would enable people to maintain a certain standard of living without having to fall into poverty. In fact, several municipalities and local governments have enacted ordinances which set a minimum wage higher than the federal minimum for the purpose of requiring all jobs to meet the living wage for that region. For instance, San Francisco, Santa Barbara, and Oakland have passed living wage ordinances above the state and federal minimum wages.<sup>20</sup>

Critics argue that living wages would not work because they would shrink the labor market, pushing out the least skilled, low-income workers, hurting the poorest of the population even

more. Living wage advocates respond, however, that the poorest people would remain eligible for assistance, while the living wage would help the many people who are currently working but ineligible for adequate government aid. For example, in California in 2004, over 30 % of families in poverty had at least one person working full-time, compared to only 12% in 1969.<sup>21</sup>

#### Questions for the RSC

1. While none of these approaches address all the current imperfections in measuring the poverty rate, they all move towards a more accurate account of poverty in the nation than the outdated and not very relevant measure of poverty in use today. Should the RSC advocate for a change to the poverty threshold measurements?
2. If so, what should the change look like?
3. What is the best method for advocating for the change?
4. Should the change be advocated for at the state level through the state 10-year plan to end chronic homelessness?

*For more information, please contact HomeBase Research Associate Sara Kaeni and/or Staff Attorney Julie Rattray at (415) 788-7961, or at [sara@homebaseccc.org](mailto:sara@homebaseccc.org) or [julie@homebaseccc.org](mailto:julie@homebaseccc.org).*

---

<sup>1</sup> <http://www.census.gov/hhes/poverty/povmeas/papers/orshansky.html#C11>

<sup>2</sup> Reed, D., *Poverty in California: Moving Beyond the Federal Measure*, Public Policy of California, p3, May 2006.

<sup>3</sup> Id.

<sup>4</sup> <http://www.census.gov/hhes/poverty/povdef.html>

<sup>5</sup> <http://aspe.hhs.gov/poverty/faq.shtml#programs>

<sup>6</sup> <http://www.census.gov/hhes/poverty/povdef.html>

<sup>7</sup> *Poverty in California*, p.15

<sup>8</sup> <http://www.hud.gov/offices/cpd/affordablehousing/>

<sup>9</sup> [www.ppic.org/content/pubs/rb/RB\\_704LRRB.pdf](http://www.ppic.org/content/pubs/rb/RB_704LRRB.pdf)

<sup>10</sup> <http://66.102.7.104/search?q=cache:X5UrK6lvw4IJ:www.nccic.org/poptopics/averagecost.html+average+annual+cost+of+child-care+in+california&hl=en&gl=us&ct=clnk&cd=1&client=safari>

<sup>11</sup> <http://www.census.gov/hhes/poverty/povdef.html>

<sup>12</sup> [http://www.huduser.org/intercept.asp?loc=/Datasets/FMR/FMR2005R/map/ca\\_FY2005\\_FMR.pdf](http://www.huduser.org/intercept.asp?loc=/Datasets/FMR/FMR2005R/map/ca_FY2005_FMR.pdf)

<sup>13</sup> [http://www.huduser.org/intercept.asp?loc=/Datasets/FMR/FMR2005R/map/ca\\_FY2005\\_FMR.pdf](http://www.huduser.org/intercept.asp?loc=/Datasets/FMR/FMR2005R/map/ca_FY2005_FMR.pdf)

<sup>14</sup> <http://aspe.hhs.gov/poverty/06computations.shtml>

<sup>15</sup> [http://www.dss.cahwnet.gov/foodstamps/Eligibilit\\_1723.htm#inc](http://www.dss.cahwnet.gov/foodstamps/Eligibilit_1723.htm#inc)

<sup>16</sup> <http://www.census.gov/hhes/poverty/povmeas/papers/orshansky.html#C11>

<sup>17</sup> [http://www.hud.gov/offices/pih/programs/hcv/about/fact\\_sheet.cfm#2](http://www.hud.gov/offices/pih/programs/hcv/about/fact_sheet.cfm#2)

<sup>18</sup> [http://en.wikipedia.org/wiki/Living\\_wage](http://en.wikipedia.org/wiki/Living_wage)

<sup>19</sup> <http://www.nlihc.org/oor2005/>

<sup>20</sup> [http://en.wikipedia.org/wiki/Living\\_wage](http://en.wikipedia.org/wiki/Living_wage)

<sup>21</sup> *Poverty in California*, p.15