



Basics Behind the Poverty Level

Introduction

Legislators have been hearing more and more about poverty levels and how they affect state funding and eligibility criteria for certain welfare programs. However, the details behind the poverty level are not always clear. This memorandum will attempt to concisely describe 1) how poverty is defined, 2) how poverty is determined, and 3) how figures on poverty are utilized by state government.

Poverty Thresholds vs. Guidelines

When speaking of poverty, it is not enough to simply say "the poverty level." The federal government actually produces two separate tables of poverty levels annually, each with its own purpose.

First, the United States Census Bureau publishes a table of "poverty thresholds." Poverty thresholds identify wage levels below which a family or household is considered "poor,"¹ based upon the number of people in the household and upon how many of these are children. Additionally, if members of the household are above age 65, this is also taken into account. Poverty thresholds are designated by the year the data is collected. For instance, 2013 poverty thresholds were calculated using 2013 data but were issued in January 2014.

Poverty thresholds are used by the Census Bureau mainly for statistical purposes and allow for detailed study. As seen in Appendix A, the table most readily available from the Census Bureau allows for 48 possible income levels, from \$11,173 for a single person family unit over 65 years of age, to \$45,073 for a family of nine or more, including only one adult.

In contrast, state government generally uses a set of figures known as the "poverty guidelines." Each year the United States Department of Health and

Human Services (HHS) examines the Census Bureau's poverty figures and simplifies that data into "guidelines" which are then published in the Federal Register.

To make things a little more complicated, whereas the thresholds are designated by the year in which the data was collected, the guidelines are designated by the year in which they are to be used. Therefore, today, a statistician might be working with 2013 poverty thresholds, while a social worker would be using the 2014 poverty guidelines.

The guidelines take the Census Bureau's complicated table and condense it into nine simplified numbers. Following are the 2014 HHS Poverty Guidelines²

<u>Size of Family Unit</u>	<u>Income Level</u>
1	\$11,670
2	\$15,730
3	\$19,790
4	\$23,850
5	\$27,910
6	\$31,970
7	\$36,030
8	\$40,090
*Each additional, add	\$ 4,060

For the most part, neither the poverty thresholds nor the poverty guidelines take geography into account.³ A poverty level in South Dakota is the same as one for Georgia or California or Maine.

How Poverty is Determined

The modern methods for determining at what point a family is "poor" were first developed by Mollie Orshansky of the Social Security Administration in 1964. These methods have changed somewhat over the years, namely through two major revisions, in 1969 and again in 1981.

The U.S. Census Bureau offers this explanation for how poverty thresholds are determined:

It was determined from the Department of Agriculture's 1955 Household Food Consumption Survey that families of three or more people spent approximately one-third of their after-tax money income on food; accordingly, poverty thresholds for families of three or more people were set at three times the cost of the economy food plan. Different procedures were used to calculate poverty thresholds for two-person families and people living alone in order to compensate for the relatively larger fixed expenses of these smaller units. For two-person families, the cost of the economy food plan was multiplied by a factor of 3.7 (also derived from the 1955 survey). For unrelated individuals (one-person units), no multiplier was used; poverty thresholds were instead calculated as a fixed proportion of the corresponding thresholds for two-person units. Annual updates of these SSA poverty thresholds were based on price changes of the items in the economy food plan.

The poverty thresholds are increased each year by the same percentage as the annual average Consumer Price Index (CPI).⁴

The poverty guidelines are "a simplified version of the Federal Government's statistical poverty thresholds." Therefore, one can only assume that the guidelines are essentially designed to closely mirror the thresholds, but in a less complicated manner.

How Poverty Levels are Used

Poverty thresholds have a variety of uses in researching the characteristics and needs of society. According to the U.S. Census Bureau's American Community Survey, the poverty rate in South Dakota is calculated to be about 13.8% over the five-year period of 2008-2012. This translates into a population of approximately 108,319 people living in poverty in the state. This rate is just slightly under the national average of 14.9%. By looking at figures such as these on even more

localized levels, one comes to realize where the greatest levels of need are.

However, in a more workaday sense, poverty guidelines are more meaningful to state government. The poverty guidelines published by HHS are utilized in determining eligibility for a number of government programs, including:

- ◆ Head Start
- ◆ Supplemental Nutrition Assistance
- ◆ School Lunches
- ◆ Low-Income Home Energy Assistance
- ◆ Children's Health Insurance Program.

Often the criteria for eligibility follow the poverty guidelines in a logical manner by determining eligibility based on a certain percentage of the poverty level. However, some programs use the guidelines in obscure ways or in combination with other factors. A good example of this is the federal Supplemental Nutrition Assistance Program (SNAP), previously known as food stamps.

The U.S. Department of Agriculture utilizes an income chart which nearly mirrors the poverty guidelines, but determines eligibility based on monthly income levels, and changes with the beginning of each new federal fiscal year. In addition, however, SNAP eligibility includes such variables as family resources (such as automobiles), certain deductions, and ability and willingness to work.

Summary

The word "poverty" is bandied about in state and federal government with regularity, but standing alone it is a very imprecise term. Millions of South Dakota tax dollars are spent annually on programs which are based, either directly or indirectly, on how the federal government determines poverty. Even though the differences between the poverty thresholds and the poverty guidelines are rather small at the micro level, and in some ways simply academic, one must know these differences when crafting public policy.

This issue memorandum was updated in 2014 by Jason Simmons, Senior Fiscal Analyst for the Legislative Research Council as originally written in 2000 by William Pike, Fiscal Analyst for the Legislative Research Council. It is designed to supply background information on the subject and is not a policy statement made by the Legislative Research Council.

¹ In this paper "poor" and "poverty" will be used synonymously.

² Federal Register, Vol. 79, No. 14, January 22, 2014, pp. 3593-3594; or, <https://www.federalregister.gov/articles/2014/01/22/2014-01303/annual-update-of-the-hhs-poverty-guidelines#t-1>.

³ The *guidelines* do allow for separate figures in Alaska and Hawaii, but otherwise no geographical distinctions are made.

⁴ Dalaker, Joseph, Poverty in the United States: 1998, U.S. Census Bureau, September 1999, pp. A-2, A-3; found at <http://www.census.gov/hhes/www/povty98.html>.

Appendix A

Poverty Thresholds for 2013 by Size of Family and Number of Related Children Under 18 Years

Size of family unit	Related children under 18 years								
	None	One	Two	Three	Four	Five	Six	Seven	Eight or more
One person (unrelated individual).....									
Under 65 years.....	12,119								
65 years and over.....	11,173								
Two people.....									
Householder under 65 years.....	15,600	16,057							
Householder 65 years and over.....	14,081	15,996							
Three people.....	18,222	18,751	18,769						
Four people.....	24,028	24,421	23,624	23,707					
Five people.....	28,977	29,398	28,498	27,801	27,376				
Six people.....	33,329	33,461	32,771	32,110	31,128	30,545			
Seven people.....	38,349	38,588	37,763	37,187	36,115	34,865	33,493		
Eight people.....	42,890	43,269	42,490	41,807	40,839	39,610	38,331	38,006	
Nine people or more.....	51,594	51,844	51,154	50,575	49,625	48,317	47,134	46,842	45,037

Source: U.S. Census Bureau.