Issue Memorandum 00-01

BASICS BEHIND THE POVERTY LEVEL

With the advent of the State Children's Health Insurance Program (SCHIP or CHIP), 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 each year, each with its own purpose.

First, the U.S. 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 in which the data used was collected. So 1999 poverty thresholds use 1999 data but were issued in January 2000.

Poverty thresholds are used by the Census Bureau mainly for statistical purposes and allow for detailed study. The table most readily available from the Census Bureau allows for 48 possible income levels, from $7,990 for a single person family unit over 65 years of age, to $32,208 for a family of nine or more, including only one adult.

In contrast, state government mainly uses a set of figures known as the "poverty guidelines." Each year the U.S. Department of Health and Human Services (DHHS) 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 1999 poverty thresholds, while a social worker would be using the 2000 poverty guidelines.

The guidelines take the Census Bureau's complicated table and condense it into nine simplified numbers. Following are the 2000 DHHS Poverty Guidelines[2]:

Size of Family Unit	Level Income
1	$8,350
2	$11,250
3	$14,150
4	$17,050
5	$19,950
6	$22,850
7	$25,750
8	$28,650
Each additional, add	$2,900

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.[4]

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 past 35 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).[5]

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, obviously, in researching the characteristics and needs of society. For instance, The poverty rate in South Dakota is calculated to be about 13.0% over the three-year period of 1996-1998. This translates into a population of approximately 95,250 people living in poverty in the state. This rate is just slightly under the national average of 13.2%. 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 DHHS are utilized in determining eligibility for a number of government programs, including:

- ♦ Head Start
- ♦ The Food Stamp Program
- ♦ School Lunches
- ♦ Low-Income Home Energy Assistance Program
- ♦ Children's Health Insurance Program

Sometimes the criteria for eligibility follow the poverty guidelines in a logical manner. For instance, the Children's Special Health Services program run by the South Dakota Department of Health utilizes a rather simple sliding fee schedule based upon the guidelines[6]:

Family income in terms of poverty level	Percent of cost the family pays
<150%	No cost-sharing
150-174%	25%
175-199%	50%
200-224%	75%
>225%	100%

In contrast, some programs use the guidelines in obscure ways or in combination with other factors. A good example of this is the federal food stamp program. The U.S. Department of Agriculture utilizes an income chart which nearly mirrors the poverty guidelines, but which determines eligibility based upon monthly income levels, and which changes with the beginning of each new federal fiscal year. In addition, however, food stamp eligibility includes such variables as family resources (such as automobiles), certain deductions, and ability and willingness to work.

But perhaps nowhere has the state legislature had such a direct connection with the poverty guidelines than in the case of the Children's Health Insurance Program.

Medicaid (Title XIX) historically covered children up to age 18 who were at or below 100% of poverty, and children up to age six who were at or below 133% of poverty. The Children's Health Insurance Program (CHIP, Title XXI) was ushered in federally in October 1997, and allowed states the ability to cover more children. South Dakota initiated a plan to cover *all* children at or below 133% of the federal poverty guidelines.

In the Governor's FY00 budget, he noted that the low costs the program had experienced would allow the states to cover kids up to 150% of poverty. After some further discussion within the Appropriations Committee, that figure was scaled back to 140%.

For FY01 the Governor again recommended a 150% level cap, but in this instance the Appropriations Committee moved further, amending the General Bill so as to allow for a cap of 200% of the poverty guidelines. If one looks at a family of three as an example, their poverty guideline would be $14,150 annually – this represents 100% of poverty. Under the FY01 CHIP rules, children under 18 in such a family would be eligible for CHIP coverage if they are uninsured and if the family's income is $28,300 or less per year (i.e., 200% of poverty).

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 same ways simply academic, one must know these differences when crafting public policy.

This issue memorandum was written 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.

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[1] In this paper "poor" and "poverty" will be used synonymously.
[2] *Federal Register*, Vol. 65, No. 31, February 15, 2000, pp. 7555-7557; or, <http://aspe.hhs.gov/poverty/00poverty.htm>.
[3] Actually, the guidelines *do* allow for separate figures in Alaska and Hawaii, but otherwise no geographical distinctions are made.
[4] On a personal note, members of the Appropriations Committee will remember that each year I have handed out a copy of the poverty thresholds from the Census Bureau, and that whenever Social Services discussed poverty levels, their information never quite correlated to my handouts. This is because for quite some time *I* did not realize the difference between the thresholds and the guidelines, a mistake for which I apologize. It is also the mistake which prompted me to offer this memorandum.
[5] 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>.
[6] ARSD 44:06:04:01.