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DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Office of the Assistant Secretary
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Washington, D.C. 20201

OCT - 5 1999

TO: The Secretary
Through: DS _____
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THRU: Margaret A. Hamburg, M.D. *Ann Segal for*
Assistant Secretary for Planning and Evaluation

FROM: Patricia Ruggles *PR*
Deputy Assistant Secretary
for Human Services Policy/Chief Economist

SUBJECT: Additional Analyses of 1998 Census Data on Families with Children -
INFORMATION

On September 30, 1999, I sent you an information memo describing the official 1998 poverty statistics released that day by the Census Bureau. Previously, on August 31, 1999, I sent you an information memo on reports released by the Children's Defense Fund (CDF) and the Center on Budget and Policy Priorities (CBPP) concerning families with children at the bottom of the economic ladder based on data for 1997. I have attached copies of both memos. The Children's Defense Fund is expected to issue an update adding the 1998 data to their August report later this week, although additional analyses from CBPP are not expected immediately. This memo discusses additional analyses of the Census Bureau data by ASPE staff to determine whether the trends identified in the earlier CDF and CBPP reports continued or changed in 1998.

Summary Information

The Children's Defense Fund report was entitled "Extreme Poverty Rises Sharply in 1997," and as the title states, the major finding of this report was that the number of children living in families with income less than one-half the poverty line (i.e., "extreme poverty") increased sharply from 1996 to 1997. The report used a definition of income which includes the effects of both in-kind benefits such as food stamps (but not medical care) and taxes. Official Census Bureau calculations, which do not count in-kind benefits or the effect of tax policy, showed no change in the proportion of children living in extreme poverty from 1996 to 1997.

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This difference between the Census and CDF findings implies that an important factor in the increase in extreme poverty found by CDF was reductions in the in-kind benefits received by very low-income households. This point was further emphasized in the CBPP report, which found that means-tested cash and in-kind benefits received by poor female-headed families with children fell substantially between 1996 and 1997, resulting in an increase in poverty for this group.

In contrast to the trends seen from 1996 to 1997, the 1998 poverty data show that the number of children living in families with income less than one-half the poverty line decreased from 1997 to 1998. This was true even for children in single parent families, and under both the official poverty definition and the expanded definition used by the CDF. However, the decrease in extreme poverty under the expanded definition (including taxes and in-kind benefits) was much smaller than the decrease under the Census definition, and was not statistically significant. The 1998 decrease in extreme poverty under this definition did not eliminate all of the increase in extreme poverty CDF reported from 1996 to 1997.

The trend toward increases in poverty for female-headed households with children found by CBPP between 1996 and 1997 also came to an end in 1998. Average means-tested benefits received by this group continued to decline in 1998 as they did in the previous year, but in 1998 the earnings and other income of this group increased by enough to offset the decline in benefits. As a result, the poverty rate (again, under the expanded definition) for these families remained essentially unchanged in 1998—the small decline observed was not statistically significant.

Highlights:

- The number of children in families with incomes below one-half of the poverty line decreased by more than 550,000 children between 1997 and 1998 using the Census Bureau's official measure of poverty. This is in sharp contrast to no change between 1996 and 1997, and is due to a large decline in the number of children who were extremely poor before transfers.
- The number of children in families with incomes below one-half of the poverty line also decreased when using the CDF's expanded definition of income to measure poverty (which includes food stamps, taxes, EITC, etc.), but by a much smaller and not statistically significant amount. The total number of extremely poor children declined by just over 100,000 children, most of them in female-headed single-parent families. This is in contrast to the dramatic increase reported by the CDF of 426,000 children between 1996 and 1997, including 376,000 children in female-headed families, but of course was not large enough to bring the number of extremely poor children down to 1996 levels. (See Table 1, attached.)

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- The August CDF report pointed to the decline in the receipt of public assistance and food stamps as the major factor in explaining this increase. In 1996, income from these two programs lifted 3.6 million children out of extreme poverty. In 1997, the number lifted out of extreme poverty was reduced to about 3 million children, and this trend continued in 1998, about 2.3 million children lifted out of extreme poverty by cash welfare and food stamps.
- As found in the CBPP report for 1997, receipt of means-tested benefits by poor female-headed families with children continued to fall in 1998. In 1998, however, the decline in means-tested benefits was offset by an increase in market incomes.
 - For female-headed families in the bottom 20 percent of the income distribution for such families, for example, average means-tested benefits fell from \$5055 in 1997 to \$4889 in 1998. (See attached Table 2.) This continued the trend seen from 1996 to 1997, when they fell from \$5323 to \$5055.
 - Total income for this group, however, counting both earnings and benefits (as well as any other sources of income) rose between 1997 and 1998, from \$7311 on average in 1997 to \$7424 on average in 1998. This reversed the 1996-1997 trend, when total income fell from an average of \$7640 to \$7311 for the bottom 20 percent of female-headed families with children.
 - In fact, although average means-tested benefits for this group were at their lowest level since 1990 in 1998, total incomes were near their 1994-1996 highs. This implies that the very poorest female-headed families with children, at least, are now making up for reductions in benefits with increased incomes from other sources such as earnings. Those in higher income categories show similar patterns, as the attached Table 2 shows.

We are continuing to analyze these data and will send you additional updates as they are available.

Attachments

cc: Melissa Skolfield
Rich Tarplin
Mary Bourdette
Olivia Golden
Howard Rolston

TABLE 1

Poverty Rates and Extreme Poverty Rates for Children Under Official and Comprehensive Definitions of Poverty, 1990 - 1998

Percentage of Children in Families with Incomes Below 100 Percent of Poverty Line									
Official Measure:	20.5	21.5	21.7	22.5	21.6	20.5	20.2	19.6	18.6
Comprehensive: (Includes Taxes and In-Kind Benefits)	18.6	18.9	19.2	20.5	18.5	16.0	15.9	15.4	14.2
Percentage of Children in Families with Income Below 50 Percent of Poverty Line									
Official Measures:	8.7	9.6	10.0	9.9	9.6	8.2	8.7	8.7	7.9
Comprehensive: (Includes Taxes and In-Kind Benefits)	3.8	4.1	4.7	4.7	4.4	3.5	3.3	3.9	3.7

NOTE: These rates differ slightly from the poverty rates for all children because they exclude children not in families (e.g. foster children.)

**Average Disposable Income (Comprehensive Definition) and Average Means-Tested Benefits by Quintile of Income,
for Female-Headed Families with Children, 1990-1998
(1998 Dollars)**

Average Disposable Income										
lowest 20 percent	\$6,843	\$6,756	\$6,659	\$7,109	\$7,586	\$7,775	\$7,640	\$7,311	\$7,424	
second 20 percent	14,365	13,979	13,383	13,645	14,221	15,739	14,879	15,491	16,048	
middle 20 percent	18,272	18,046	18,205	18,220	19,365	20,681	20,097	20,535	21,969	
next-highest 20 percent	25,950	25,224	25,106	26,153	27,090	28,344	27,516	27,912	29,394	
highest 20 percent	43,876	43,559	43,201	44,895	44,363	47,081	50,011	50,025	51,570	
Average Means-Tested Benefits										
lowest 20 percent	\$5,421	\$5,474	\$5,314	\$5,711	\$6,045	\$5,680	\$5,323	\$5,055	\$4,889	
second 20 percent	8,510	8,499	8,052	8,282	7,951	7,983	7,124	6,175	5,225	
middle 20 percent	5,394	5,988	5,375	5,006	4,948	3,768	3,492	3,200	2,694	
next-highest 20 percent	1,645	1,751	1,592	2,391	2,444	2,505	1,606	1,466	1,383	
highest 20 percent	542	462	626	845	796	886	661	653	407	

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Office of the Assistant Secretary
for Planning and Evaluation
Washington, D.C. 20201

AUG 31 1999

TO: The Secretary

Through:

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COS

ES

THRU: Margaret A. Hamburg, M.D.
Assistant Secretary for Planning and EvaluationFROM: Patricia Ruggles *PR*
Deputy Assistant Secretary
for Human Services Policy/Chief EconomistSUBJECT: Highlights and Analysis of Two Reports on Families with Children -
INFORMATION

On August 22, 1999 both the Children's Defense Fund and the Center for Budget and Policy Priorities issued reports concerning families with children at the bottom of the economic ladder. The memo is in response to your request for a review of these reports.

Summary Information

The Children's Defense Fund (CDF) report focuses on the economic condition of children in families with income below one-half the poverty threshold. The report is entitled "Extreme Poverty Rises Sharply in 1997," and as the title states, the major finding of this report is that the number of children living in families with income less than one-half the poverty line (i.e., "extreme poverty") increased sharply from 1996 to 1997.

Unlike the official poverty statistics issued by the Census Bureau, which do not show such a sharp increase, the CDF figures are calculated including the effects of both in-kind benefits and taxes. Counting only cash income, as the official poverty definition still does, the rise in extreme poverty was fairly small (and not statistically significant) between 1996 and 1997, but was larger between 1995 and 1996.

According to CDF's calculations, the increase in extreme poverty under the expanded definition of income was proportionately largest for children living in single parent families. They found a 26 percent increase in the number of such children between 1996 and 1997.

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The Center for Budget and Policy Priorities (CBPP) report is concerned with the economic condition of single parent families, particularly those in the bottom 20 percent of the income distribution, in the context of a strong economy and welfare reform. The report is entitled, "~~The Initial Impacts of Welfare Reform on the Economic Well-being of Single Mother Families with~~ Children."

This report focuses on a slightly longer time period than does the CDF report. It compares disposable income of single parent families in the 1993-1995 period with the incomes of similar families in 1995-1997, and finds that while the disposable income of the bottom 20 percent of single mother families increased during the 1993-1995 period it declined in the latter period. (CBPP has used the same income definition as the CDF report—cash income plus in-kind benefits and taxes.) The report notes that a small part of this decline resulted from a loss in earnings for these families in 1995-1997, but about 80 percent of the decline was due to declines in the amounts of means-tested benefits received by these families.

Because single-parent families with children are generally likely to have low incomes, however, it should be noted that the bottom 20 percent of these families have incomes that are at a maximum 75 percent of the poverty level. The second 20 percent—those with incomes between 75 percent and 112 percent of the poverty level—had no statistically significant change in average incomes during the 1995-1997 period. Unlike the families in the bottom 20 percent, these families relied on earnings for a significant proportion of their total income, although means-tested benefits also remained an important income source.

Both reports point out that this decline in the economic well-being of the poorest families with children occurred during a time of continued economic expansion, low unemployment and continued increases in the Earned Income Tax Credit. The reports blame declines in the level of participation in cash assistance programs and in food stamps for the decline in the incomes of these families.

Highlights of the CDF report include:

- The CDF report focuses on those families with income below one-half of the poverty line. The poverty line for a family of 3 (one adult and 2 children) was \$12,931 in 1997. One-half the poverty line as a measure of extreme poverty would be \$6,465. Income at that level is equivalent to a working a half time, year round job at about \$6.50 per hour. 40 percent of the children living in extreme poverty lived in a family where someone worked sometime during the year and 17 percent lived in a family where someone worked at least 1000 hours (equivalent to a half-time year round job.)

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- The number of children in families with incomes below one-half of the poverty line is unchanged from 1996 to 1997 using the Census Bureau's official measure of poverty. The trend in the number of extremely poor children, as measured by the official definition of income, had been declining since it peaked in 1993 and increased in 1996.
- The number of children in families with incomes below one-half of the poverty line is up dramatically for single parent families from 1996 to 1997 (26 percent or 372,000 children) when using an expanded definition of income to measure poverty (e.g., counting food stamps, housing assistance, taxes.) Overall, the number of extremely poor children in all families increased by 426,000 under this definition of income.
- The increase in the number of extremely poor children, as measured by an expanded definition of income, sharply reverses a downward trend which began in 1993.
- Children living in larger families (i.e., more than 2 children) made up 90 percent of the increase in children living in extreme poverty.
- The report points to the decline in the receipt of public assistance and food stamps as the major factor in explaining this increase. In 1996, income from these two programs lifted 3.6 million children out of extreme poverty. In 1997, the number lifted out of extreme poverty was reduced to about 3 million children.

Highlights of the CBPP report include:

- The CBPP report looks at the disposable income of single-mother families with children. The definition of disposable income is the same as the expanded definition of income used in the CDF report. Disposable income includes earnings and other cash income as well as food stamps, housing assistance, EITC and other non-cash benefits. The report focuses on the bottom quintile and decile of the income distribution. As defined in the CBPP report the bottom quintile has income below 75% of the poverty threshold (income less than \$9,672 for a family of 3) and the bottom decile has income below 52% of the poverty threshold (income less than \$6724 for a family of 3.)
- During the period 1995 to 1997 the disposable income of single-mother families in the bottom income quintile declined by an average of \$577 per family while the income of single mother families in the poorest 10% fell an average of \$814. The losses during the 1995 to 1997 period are in contrast to the gains in the earlier period, 1993 to 1995.

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- Participation in food stamps and cash assistance programs has declined much faster than one would expect given changes in need as measured by the number of poor. During the 1995 to 1997 period the number of people receiving benefits from AFDC/TANF declined by 22.2 percent and the number receiving food stamps declined by 16.6 percent, while the number of people living in poverty declined by only 2.9 percent.
- The proportion of poor children receiving benefits from either AFDC/TANF or food stamps has declined over the period 1993 to 1997. In 1993, 85 percent of poor children benefitted from the food stamp program and 57 percent benefitted from AFDC. In 1997, the proportion of poor children benefitting from the food stamp program had declined to 70 percent and the proportion receiving benefits from the AFDC/TANF program had declined to 40 percent.
- The CBPP report, like the CDF report, points out the failure of the safety net to perform as well as in the past in moving poor families out of poverty. In 1995, 20.6 percent of children living in poverty were lifted out of poverty by means tested transfers including food stamps, AFDC/TANF, SSI and housing assistance. In 1997, these means tested programs moved a smaller proportion of poor children out of poverty - 16 percent.
- Another indicator of the falling economic well-being of children living in these families is the poverty gap (the amount of money needed for a poor family to reach the poverty line). After falling from 1993 to 1996 (\$20 billion to \$16.5 billion) the poverty gap increased in 1997 to \$17.1 billion, although the total number of poor children declined. This indicates that the economic situation of those in poverty has deteriorated, and is consistent with the finding that a larger proportion of poor children are in families with incomes below 50 percent of the poverty line.

Issues

ASPE has reviewed both reports carefully. In general, we believe that they are both well done and their findings are consistent with other research that is examining the economic well-being of families with children and the outcomes of welfare reform, including the Department's own reports and sponsored research. In the Second Annual TANF Report to Congress we note that those at the bottom of the income ladder are not faring as well as those on the higher rungs of the ladder and that this bears monitoring. We anticipate that the Census Bureau will release the 1998 poverty and income statistics on September 30, 1999. At that time the Census Bureau will release the micro-data and we plan to analyze these data to determine if these trends are continuing.

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We do have some concern that part of what we are seeing in both these reports is an increase in the under-reporting of income, particularly welfare income, amongst the lowest income families. Both the CDF and CBPP reports recognize this problem and make attempts to account for it in their analyses. Nevertheless, the proportion of total welfare and food stamp benefits reported to the Census Bureau has fallen substantially in recent years, which could have a significant effect on the perceived impacts of these safety net programs on family poverty.

It is well documented that welfare caseloads are down, as are food stamps and Medicaid caseloads, and employment is up. It is also clear that some families are doing better under welfare reform and the strong economy, while others are doing worse and still others are about the same. The Department and the Administration have expressed concern regarding the declines in both Food Stamps and Medicaid and action is being taken to ensure that those who are eligible for assistance are provided with the opportunity to enroll.

Both ASPE and ACF have taken steps to evaluate the outcomes of welfare reform and the well-being of our nation's families and children. We will continue to work to monitor the well-being of families with children. We will report back to you on our analysis of the 1998 Census Bureau data in early October.

If you require additional information please call me at (202) 690-7409, and I will be more than happy to assist you.

cc: Olivia Golden, ACF
Howard Rolston, ACF
Melissa Skolfield, ASPA
Richard Tarplin, ASL

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Office of the Assistant Secretary
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Washington, D.C. 20201

SEP 30 1999

TO: The Secretary
Through: DS _____
COS _____
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Through: Margaret A. Hamburg, M.D. *Ass. Sec. for*
Assistant Secretary for
Planning and Evaluation

FROM: Patricia A. Ruggles *PR*
Deputy Assistant Secretary for
Human Services Policy and Chief Economist

SUBJECT: Release of 1998 Poverty Rates and Income Estimates - INFORMATION

The Census Bureau has just released the 1998 Income and Poverty Estimates. Increases in income and declines in poverty in 1998 were larger than had been anticipated based on the experience of the past several years.

Poverty Highlights:

- The overall poverty rate fell from 13.3 percent to 12.7 percent - a surprisingly large drop. This brings the poverty rate below the 1989 level of 13.1 percent for the first time in this decade. The total size of the poverty population is now 34.5 million people, a decline from 35.6 million in 1997.
- The percentage of children under 18 in poverty also fell, from 19.9 percent to 18.9 percent. This is also a large and statistically significant change. There are now 13.5 million poor children. Children are 39 percent of the poor though they are but 26 percent of the total population. This is the first time the poverty rate for children has been significantly below 20 percent since 1980.
- The largest declines in poverty were seen in the South, where the overall poverty rate fell from 14.6 percent to 13.7 percent. This is the lowest rate seen in the South since regional figures have been calculated, and this decline accounted for a large share of the total decline in poverty. Declines in the other regions were smaller and not statistically significant.

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- Poverty did not decline for Blacks—it remained unchanged at 26.1 percent. While this is the same as last year's rate, that rate was the lowest since 1959. For Hispanics there was a decline in the rate from 27.1 percent in 1997 to 25.6 percent in 1998, bringing the Hispanic rate below the rate for Blacks for the first time (although the difference between the rates for the two groups is not statistically significant in 1998.)

Income Highlights:

- Median household income rose by 3.5 percent to \$38,885 (in 1998 dollars). This increase was also large compared to average year-to-year growth and was statistically significant. Household income adjusted for inflation is now at its highest level since Census started doing estimates in 1967. Again, this is the first year that median household income has been higher than its previous peak in 1989, when it was \$37,884 (in 1998 dollars).
- Median income rose by 3.4 percent for family households headed by a married couple, to \$54,276, while median income for female-headed family households rose even more, by 4.2 percent to \$24,393. Both increases are statistically significant, although the difference between the two rates is not. This relatively large increase in the median for families headed by women is interesting in light of the fact that poverty rates for female-headed family households did not change by a statistically significant amount. (A family household is one consisting of at least two related persons. These medians exclude single-person households.)
- Median household income increased significantly in all regions of the country. Growth in the Midwest was particularly large, at 4.4 percent. (Although differences in growth rates across the regions were not statistically significant.)
- Inequality in the distribution of income has remained statistically unchanged since 1993 under the Census Bureau's measure. Households in the lowest fifth of the income distribution received 3.6 percent of total income in both 1997 and 1998, while those in the highest fifth received almost half of all income (49.2 percent in 1998). The Census Bureau cautions that income at the top may actually have increased by more than is measured, because they do not include incomes over \$1 million in their survey.

Observations:

- It is remarkable that it has taken us 10 years to get to the 1989 level of poverty and of median income given the robust economy of the past decade. The overall distribution of income became more unequal in the 1980s and early 1990s and has not yet recovered from that increase, but today's release indicates that some of the improvement in economic circumstances seen by most families since 1993 is now reaching the lowest income households.

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- The poverty numbers released today are based on the official definition of poverty, not the alternative definition recommended by the National Academy of Sciences. Starting from the same poverty rate in 1997, the alternative definition would produce a 1998 poverty rate slightly lower than the official rate because it includes the Earned Income Tax Credit in measured income. (The official measure does not count the EITC.)

Information on health insurance coverage will be available October 4.

The entire package of income and poverty estimates released by Census is attached.

Attachments

cc: ~~Melissa Skolfield~~
Rich Tarplin
Olivia Golden
Mike Hash
Gary Claxton