Insights from the New Virginia Poverty Measure

Three Major Findings on Poverty in Virginia

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Introduction

In light of the recent recession and economic downturn, the Weldon Cooper Center sought to improve understanding of poverty in the commonwealth by designing a new measure of economic deprivation. The proposed Virginia Poverty Measure (VPM) builds on research on the limits of the official Census Bureau poverty measure, including recommendations from the National Academy of Sciences and best practices of alternative poverty measures across the country. The Virginia Poverty Measure, unlike the official Census Bureau measure, accounts for regional differences in the cost of living, a broader array of family resources, and the effects of taxes and credits, among other changes. By making these modifications in the way poverty is measured, the VPM presents a more accurate picture of the status of low-income families and individuals in the commonwealth.

The VPM does not differ substantially from the standard official poverty measure when measuring overall poverty for Virginia. Official poverty statistics in 2011 identify 11.6 percent of Virginians in poverty. The new Virginia Poverty Measure finds 11.9 percent of Virginians (936,000 people) below the poverty line (an average of about $29,000 in annual income for a two adult, two child family). At a greater level of detail, however, significant differences are evident:

1. Although Northern Virginia counties and cities enjoy some of the highest median incomes in the nation, the VPM shows that the extent of economic deprivation in the region is significantly greater than what official poverty statistics suggest. For example, by capturing the impact of the region’s high cost of housing, the VPM finds many more Northern Virginia residents in or near poverty, particularly those living inside the Beltway.

2. The VPM poverty rate for children is dramatically lower than the official rate. Official statistics do not account for the impact of many government programs targeted favorably towards families with young children. By including these tax code provisions and in-kind benefits, the VPM recognizes the full range of resources available for families with young children.

3. By including calculations for taxes and adjustments for costs of living, the VPM classifies a greater number of people as “near poor.” However, by including more government programs and subsidies for the poor, the VPM finds fewer Virginians in “deep poverty.”
The Virginia Poverty Measure

Although the official poverty measure remains a useful statistic for understanding historical economic deprivation, the accuracy and validity of the measure for recent years has been called into question. Primary among these critics is the National Academy of Sciences, which made its concerns known in a 1995 report *Measuring Poverty: A New Approach*. The report identified three primary issues with the measure:

- The official poverty measure is based on a 1960s understanding of what it means to be poor.
- It is a “one-size-fits-all” statistic that does not account for regional differences in the cost of living.
- It does not account for taxes, medical costs, and many government programs designed to alleviate poverty.\(^1\)

Shortly after the release of the National Academy of Sciences report, the Census Bureau began experimenting with alternative poverty measures, following many of the recommendations made in the report. These new alternative poverty measures incorporated a broader array of resources in family income, and subtracted necessary expenses, such as health care or child care. In addition, new poverty thresholds were designed and updated to better reflect contemporary consumption patterns. The Census Bureau researchers found that many of these new poverty measures would result in higher poverty rates (compared to the official measure) for some groups and lower rates for others. For instance, a greater number of elderly people and working families were reported as being poor after including medical costs and tax liabilities. On the other hand, including a broader array of public assistance programs and tax credits lowered poverty rates for children and some racial minorities.\(^2\)

After a decade of research, the Census Bureau began developing the Supplemental Poverty Measure (SPM). Like the official poverty measure, the SPM project produces annual estimates of the number of people who are in economic distress. Unlike the official poverty measure, the SPM accounts for regional differences in the cost of living, the effects of taxes, and a broader set of government programs. For 2011, the new SPM reported a national poverty rate of 16.1 percent, while the official rate for that year was 15.1 percent.\(^3\) Like the experimental poverty measures from a decade before, significant differences also emerged across demographic groups. For example, the SPM records lower poverty rates for children under the age of 18 and higher poverty rates for the elderly age 65 and over.

In the past decade, several states and organizations have also attempted to create their own poverty measures similar to the SPM, fitted specifically to local considerations and local data. The most notable efforts have been the “Wisconsin Poverty Measure” developed by the Institute for Research on Poverty

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at the University of Wisconsin;\textsuperscript{4} the alternative poverty measure developed for New York City by the Center for Economic Opportunity;\textsuperscript{5} and the ongoing research done by the Urban Institute on behalf of interested states.\textsuperscript{6} There are many differences in the methodologies across these organizations, but their poverty measures often yield results similar to the SPM estimates.

As a result of these efforts, a growing consensus among many poverty researchers and policymakers in Virginia is forming around the need for, and utility of, alternative measures of poverty. For instance, the 2009 Virginia Poverty Reduction Task Force, funded in part by the National Governors Association, outlined the shortcomings of the official measure, and how alternative measures could address these issues:

The official poverty threshold understates basic living costs, and the poverty rate does not measure the impact of government assistance in reducing poverty...One of the main benefits of an improved poverty measure is that it would show how policy affects poverty, by taking into account both taxes and government assistance programs.\textsuperscript{7}

By using the American Community Survey (ACS) and a variety of other Virginia-specific data sources, the proposed Virginia Poverty Measure (VPM) provides alternative poverty estimates that better reflect the actual population in economic distress in the commonwealth. The VPM draws on research conducted by the U.S. Census Bureau, and represents an improvement over the official poverty measure by accounting for:

- \textit{Regional differences in the cost of living}. The VPM accounts for regional differences in the cost of major goods and services such as housing, food, and health care. As expected, costs vary tremendously across different regions in Virginia, and VPM poverty thresholds are adjusted accordingly.

- \textit{Updated poverty thresholds based on contemporary consumption patterns}. The VPM bases its poverty thresholds on necessary spending on a bundle of goods including food, clothing, shelter, and utilities. National spending data from the past five years is used to develop these thresholds.

- \textit{Family resources from in-kind government transfers}. Major anti-poverty programs such as Food Stamps (aka SNAP), public housing assistance, and the National School Lunch Program are not included in family resources in the official poverty measure. They are included in the VPM.


• **Taxes and Credits.** Payroll taxes and federal and state income taxes are subtracted from family resources in the VPM. Also, the VPM accounts for important refundable tax credits such as the federal Earned Income Tax Credit.

• **Necessary medical expenses.** Health care is a growing part of family budgets, and the VPM accounts for these necessary expenses by adding them to the poverty thresholds according to family size, age of household members, and health insurance status.

The following pages present some of the major findings from the VPM for 2011, the most recent year for which data are available. Many differences from the official poverty measure emerge, but some of the most striking results come from the VPM's regional estimates.
1. Northern Virginia has a higher poverty rate.

Across demographic measures, Northern Virginia is distinct, both in Virginia and nationally. Counties in the region have some of the highest median household incomes and some of the most educated populations in the country. Yet, they also have a particularly high cost of living. The official measure of poverty fails to take this into account, and, as a result, misses a large proportion of the Northern Virginia population that is in economic distress.

The table below presents VPM poverty rates across 11 Virginia regions (defined by public-use microdata areas). The most striking result is the significantly higher poverty rates in Northern Virginia compared to official estimates. The VPM cost of living adjustments had a particularly dramatic effect on poverty rates in this region.

VPM poverty rates in Fairfax (9.7%) and surrounding exurbs (9.4%), while still some of the lowest in Virginia, are much greater than what is reported by the official poverty measure. Residents inside the Beltway, in particular, have a higher VPM poverty rate, compared to the official estimate.

The gap in poverty rates between Virginia’s rural regions and Northern Virginia shrinks when using VPM estimates. These results underscore the shortcomings of a “one-size-fits-all” poverty measure that does not account for regional differences in the cost of living.

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<tr>
<th>2011 VPM and official poverty rates by region</th>
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<tr>
<td>Region</td>
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<tr>
<td>Beltway</td>
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<td>Fairfax</td>
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<td>Northern Virginia Exurbs</td>
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<td>North Valley and Piedmont</td>
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<td>Richmond Area</td>
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<td>Northern Neck and Eastern Shore</td>
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<td>Southside</td>
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<td>Southwest</td>
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<td>Virginia Beach and Chesapeake</td>
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Source: The 2011 American Community Survey and Weldon Cooper Center VPM estimates
2. Fewer Virginia children are in poverty.

The VPM poverty rate for all of Virginia is not significantly different from the official poverty rate. Significant differences emerge, however, among population subgroups – most notably, across age groups. The graphic below displays these differences.

Many government programs target or give preferential benefits to low-income families with children. In fact, it is often difficult for low-income Virginians who are single and have no children to be eligible for benefits unless they also have a serious disability or are elderly. Because the VPM incorporates more of these benefit programs in calculations of family resources, children are less likely to be classified as impoverished.

The inclusion of Food Stamps, WIC, school lunch subsidies, and refundable tax credits (such as the Earned Income Tax Credit and Additional Child Tax Credit) dramatically lowers child poverty rates reported by the VPM. As shown below, the VPM reports a 13% poverty rate for children under the age of 18, 2.6 points lower than the official poverty measure (15.6%). Conversely, the inclusion of necessary medical expenses, along with tax liabilities and work-related expenses such as child care and transportation, contributes to significantly higher rates of poverty among working-age adults (12.2%) and the elderly over the age of 65 (8.5%), compared to official estimates.

2011 Official and VPM Poverty Rates by Age

Source: The 2011 American Community Survey and Weldon Cooper Center VPM estimates
3. More Virginians are in “near poverty,” fewer are in “deep poverty.”

Differences between official and VPM poverty rates also emerge when considering varying levels of deprivation. Two additional gradations of the poverty thresholds are examined here: those who are below 50 percent of the poverty thresholds (deep poverty) and those who are below 150 percent but above 100 percent (near poverty). Deep poverty is typically used as a measure of severe income deprivation, while near poverty denotes economic insecurity and a population that is at higher risk of slipping into poverty.

As shown below, the VPM reports that over 26 percent of Virginians are in or near poverty (annual income under about $43,500 for a two-adult, two-child family), compared to 19.3 percent reported by the official poverty measure. The official poverty measure, however, reports a greater proportion in deep poverty (5.3%) compared to the VPM (3.7%). The inclusion of a broader array of resources illustrates the effects of many of the government assistance programs (such as Food Stamps) that were designed to alleviate poverty at its worst.

Source: The 2011 American Community Survey and Weldon Cooper Center VPM estimates
Conclusion

Built upon the conclusions and recommendations from the National Academy of Sciences, and poverty research conducted by the Census Bureau, the VPM represents a significant improvement on the official poverty measure. Although the VPM and the official poverty measure report similar poverty rates for all of Virginia in 2011, the VPM shows stark differences among Virginia’s regions and sub-populations.

These differences reflect (1) a broader definition of income and resources that better captures the true financial circumstances of Virginians, (2) updated thresholds that account for a broader array of goods and reflect the consumption patterns of contemporary American families, and (3) regional differences in the cost of living.

Readers who are interested in more details on VPM results and how the VPM was developed are encouraged to read the full report *The Virginia Poverty Measure: An Alternative Poverty Measure for the Commonwealth.*

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