Re-examining Poverty Rates

A First Step in Reforming Anti-Poverty Programs

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ACCOUNTING FOR COST OF LIVING DRAMATICALLY ALTERS UNDERSTANDING OF POVERTY

- The Official Poverty Measure determines the distribution of many government benefits, but it is a poor tool for understanding poverty because it does not account for regional costs of living.
- Analyzing all 50 states and D.C. with the U.S. Census Bureau's Supplemental Measure of Poverty that accounts for cost of living shows a significant shift in regional poverty rates.
- The Official Poverty Measure overstates poverty rates in the South and Midwest and understates poverty on the coasts.
- Texas' poverty rates for whites, blacks, and Hispanics of Mexican origin are well below average among the 50 states and D.C.
- Virginia and Texas have the lowest demographically adjusted poverty level among the 12 largest states when accounting for cost of living; California and Florida have the highest rates.

Executive Summary

The declared war on poverty is now more than 50 years old. A broad misunderstanding over the nature and prevalence of poverty hampers success in reducing poverty by addressing its root causes.

America's traditional poverty yardstick, the Official Poverty Measure, is more than 50 years old. It doesn't tell us much about the true nature of poverty as it doesn't account for differences in the cost of living from state-to-state or include a wide array of non-cash benefits that the poor receive or account for the common expenses they incur.

Analyzing all 50 states and D.C. with the U.S. Census Bureau's Supplemental Measure of Poverty, which accounts for cost of living, shows a very different picture of poverty, particularly when accounting for demographics.*

It is no secret that Texas led the nation in job creation for more than a decade. But many have derided the state's pro-market, limited government approach, a.k.a. the Texas model, as being hard on the poor. However, the truth is that Texas' poverty rate is at the national average, once the cost of living is considered. In addition, Texas' Supplemental Poverty Measure is well below average for whites, blacks, and Hispanics of Mexican origin compared to the 50 states and the District of Columbia. And only Virginia has a lower demographically adjusted poverty rate than Texas among the 12 largest states. California, meanwhile, has the highest poverty rate in the nation.

The key intent of this paper is to lay the foundation for a more complete understanding of poverty and its connections to economics and public policy by accounting for the cost of living and demographics. This analysis of demographic differences in state poverty rates, especially among minorities, may spur both federal and state policy makers to consider new approaches for reducing poverty, 50 years after Lyndon Johnson declared war on poverty.

The effect of discouraging work for people receiving assistance needs a high level of scrutiny. It is time to reconsider timeworn approaches to the safety net. Many

* Unlike the Official Poverty Measure, the Supplemental Poverty Measure accounts for cost of housing differences from state to state and includes as income various noncash forms of assistance to the poor, such as food aid and rental subsidies.

THE FEDERAL GOVERNMENT'S OFFICAL MEASURE OF POVERTY IS OBSOLETE

- Federal researchers rarely publish studies with poverty rates broken down by race and ethnicity at the state level, hindering a detailed study of poverty.
- The poverty thresholds from which the Official Poverty Measure (OPM) is derived were developed in 1963 and 1964 from the U.S. Agriculture Department's 1955 Household Food Consumption Survey.
- While poor Americans saw their real income generally rise along with the rest of the nation over the past six decades, the relative calculation of poverty did not keep pace.

of the gains in reducing dependency on government through the first major round of welfare reform in 1996 have since been lost, with dependency growing in many categories even after the Great Recession ended. Work is vital to lifting people out of poverty and programs or policies that make it easier to not work, such as Social Security Disability Insurance, or that discourage employment gains or business creation, should be candidates for reform to reduce poverty.

Discouraged by the difficulty of finding employment, or seeing government benefits decline more than income earned increases when work is found—amounting to a high effective tax rate for the poor[1]—the increasing divorce of Americans of working age from the workforce holds back the U.S. economy by artificially restricting the labor supply while burdening the private sector with higher taxes or in-kind benefits to pay for ever-expanding social service budgets. Further, as has been shown by studies dating back 50 years, the decline of work and its replacement by government benefits feeds into the corrosion of family bonds, itself leading to more poverty.[2] Addressing this issue was a major aim of the Personal Responsibility and Work Opportunity Act (Welfare Reform Act) of 1996.[3]

A second round of welfare reform is needed at the state and federal level some 20 years after the last major national effort. All focus must be on getting the poor into the workforce. Policies that discourage this must be changed. This includes direct incentives not to work, such as the ease of getting on disability, as well as tax and regulatory policies that together discourage job creation. Welfare reform must be comprehensive if it is to address the factors in the cycle of poverty: employment; marriage; children born out of wedlock who have a higher likelihood of becoming welfare dependent; family stability; and educational achievement, which itself feeds back into prospects for employment and so on.

Defining Poverty

The federal government's Official Poverty Measure has two large shortcomings when used for studying poverty: it doesn't account for regional cost-of-living variances and it is rarely broken down by race and ethnicity at the state level. The lack of these two factors makes the Official Poverty Measure of limited use when trying to gain a deeper understanding of the nature of poverty.

The Official Poverty Measure

The Official Poverty Measure, a nationwide, one-size-fits-all measure of income, is problematic. The poverty thresholds from which the Official Poverty Measure (OPM) is derived were developed in 1963 and 1964 from the U.S. Agriculture Department's 1955 Household Food Consumption Survey.[4] The poverty threshold is determined by multiplying the subsistence food budget by three.

Many scholars of poverty criticize the OPM as having fallen behind the average American standard of living. This complaint is based on a critique of poverty based on relative terms, to average American living standards, rather than in absolute terms.

But ideas to change the OPM run into stiff resistance from defenders of the status quo. This should come as no surprise: once an abstract poverty measure passes from the realm of academics and crystallizes into actual government programs consuming hundreds of billions of dollars, many people develop a vested interest in keeping it.

Poverty at the State Level

States typically adjust the income thresholds for the federal poverty programs they are authorized to manage to account for the relative purchasing power in their jurisdiction. For instance, children's families are eligible for Medicaid with incomes up to 300 percent of the poverty level in 19 states and the District of Columbia.[5] Further, the general pattern of Federal Poverty Level (FPL) eligibil-

ity for Medicaid, a threshold set by states' elected officials, often reflects their cost of living, with high-cost states in the Northeast and West generally allowing more higher-income earners into the Medicaid program than do states in the South and Midwest with a relatively lower cost of living.[6]

Unlike Medicare and Medicaid, one of the most commonly used poverty programs—the Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp program)—uses a nationwide income threshold, with a household of four qualifying for assistance with a maximum net monthly income of $1,963 and gross monthly income of $2,552 in fiscal year 2014.[7] Alaska and Hawaii are exceptions, perhaps because when policy makers created the Food Stamp program, they understood Alaska and Hawaii to have a higher cost of living. Alaska's threshold for eligibility for a family of four is $2,454 net income and $3,190 gross income, 25 percent higher than for the other 48 states and the District of Columbia.[8] Hawaii's threshold for qualifying for SNAP is 15 percent more generous than the national threshold.[9] As of fiscal year 2013, SNAP doled out $76 billion in SNAP benefits to 47 million people.[10]

Thus, except for Alaska and Hawaii, 48 states have the same income thresholds for SNAP. This is in spite of the fact that, for example, the cost of living is about 30 percent above the national average in California and New York.[11] The same is true with the Official Poverty Measure itself: poverty thresholds are determined based on a common income level—that of the entire nation. Because goods and services tend to cost less in the South and Midwest and more on the coasts, the Official Poverty Measure overstates poverty rates in the South and Midwest and understates poverty on the coasts.

Analysts measure cost of living many ways. The U.S. Bureau of Economic Analysis (BEA) publishes its regional price parities (RPP) annually.[12] The Bureau of Economic Analysis shows that, for 2012, California's all items RPP was 112.9 percent of the national average of 100 that year. Detailing California, the cost of goods was 103.1 of the national average, rents, 147.4 percent of the national average, and services 105.6 percent of the national average. This compares to Texas with an overall RPP of 96.5 percent of the national average, with goods averaging 97.9 percent, housing at 89.3 percent, and services at 99 percent. But, digging into the details the BEA uses reveals a methodological shift that systematically dampens the regional differences in housing costs. In 2012, the BEA changed two factors in the housing cost component of the RPP formula: it reduced the weight of housing costs in the overall index from 29.2 percent to 20.4 percent and it shifted from using consumer expenditure (CE) data to data on personal consumption expenditure (PCE).[13] This shift reduced the weight of housing costs by 12 percent.†

The Council for Community and Economic Research (C2ER) publishes a state level Cost of Living Index every quarter and breaks down costs in more detail than does the Bureau of Economic Analysis. C2ER assigns a higher weight to housing costs (26 percent in 2013-14)[14] than does the BEA (20.4 percent) while showing a greater variability in housing costs. C2ER's housing index for the fourth quarter of 2012 showed that California's housing cost 108 percent more than Texas', and overall costs 37 percent more. In the federal government's index, overall costs were 17 percent higher in California than in Texas. Whether the cost of living in California is 17 percent higher than it is in Texas or 37 percent higher, the federal government's Official Poverty Measure doesn't take that difference into account. By listing the gross monthly income limit for a family of four and how it converts to purchasing power parity in the two most populous states, **Figure 1** shows how the official poverty threshold falls short. A family of four living in Los Angeles, California, making 130 percent of the poverty level, or $2,552 per month—the eligibility threshold for food stamps, effectively earns $776 per month less buying power, 30 percent, under one common calculation than if the costs in Los Angeles were at the national average.

There are a number of challenges associated with the study of American poverty. Agreement over what causes poverty is difficult to come by. Several agencies within the federal government, and especially the U.S. Census Bureau, report on poverty. These reports usually show

† In "Regional Price Parities for States and Metropolitan Areas, 2006–2010" in the Survey of Current Business from the U.S. Bureau of Economic Analysis, August 2012, page 233, Bettina H. Aten, et al. note "the adjustment shifts the distribution of the weights across items, notably reducing the share of rents from 29.2 percent to 20.4 percent. Shifting from CE-based weights to PCE-based weights reduces the spread of the RPPs. As noted earlier, the variation of rents is greater than that of the other expenditure classes; therefore, reducing their relative weight tends to reduce the range of the RPPs for all items…. It would also be interesting to augment the RPP estimation methodology with private and commercial sources of data." In "The CE and the PCE: a comparison" in the Monthly Labor Review from the U.S. Bureau of Labor Statistics, September 2006, page 25, Thesia I. Garner, et al. show that, from 1992 to 2002, rents as determined by the PCE method were 88 percent of the CE method (see: http://www.bls.gov/opub/mlr/2006/09/art3full.pdf) thus, the shift to PCE dampens the effect of rental cost differences across the nation.

MONTHLY INCOME NEEDED TO REACH 120% OF THE POVERTY LEVEL FOR A FAMILY OF FOUR					
	Monthly Income	Housing	Total Index	Income Needed to Reach FPL	Monthly Gross Income Gap
California BEA RPP, 2012	$2,552	147.4%	112.9%	$2,881.21	($329.21)
Texas BEA RPP, 2012	$2,552	96.5%	89.3%	$2,278.94	$273.06
California, C2ER 4th Qtr 2012	$2,552	176.3%	125.6%	$3,205.31	($653.31)
Texas, C2ER 4th Qtr 2012	$2,552	84.7%	82.0%	$2,092.64	$459.36
Los Angeles BEA RPP, 2006-10[15]	$2,552	N/A	114.2%	$2,914.38	($362.38)
Austin, Texas BEA RPP, 2006-10	$2,552	N/A	99.4%	$2,536.69	$15.31
Los Angeles C2ER 2013	$2,552	198.2%	130.4%	$3,327.81	($775.81)
Austin, Texas C2ER 2013	$2,552	86.6%	93.2%	$2,378.46	$173.54

***Figure 1**—The Federal Poverty Level does not take into account regional differences in the cost of living, thus significantly understating poverty rates in high-cost states such as California.*

poverty's national and state incidence based on education, age, and national origin, and national incidence based on race and ethnicity. The lack of published federal data on race and ethnicity at the state level inhibits the thorough analysis of what connection local economic conditions and public policies have with poverty rates, if any.

An Alternative Approach to Measuring Poverty

By 1974, Congress became concerned enough about regional cost of living as a factor in poverty to call for a report. The U.S. Department of Health, Education, and Welfare report issued in 1976 noted,

> *"because of Congressional interest in the subject (geographic cost-of-living differences) … this study directed considerable effort in an analysis of possibilities for incorporating such differences in a poverty measure.…There may be cost-of-living differences between regions, and among urban, suburban, and rural areas, but the extent and nature of these differences is difficult to identify accurately.… Because cost-of-living differences across areas are not satisfactorily measured by existing data and because there is no agreement on the methodology for making such an adjustment, no geographic adjustment in the poverty threshold is made in the report."*[16]

In 1995, the National Academy of Sciences Panel on Poverty and Family Assistance recommended a number of adjustments to the poverty threshold, including using decennial census data to develop a housing-cost index, including utilities, and then weight that index as 44 percent of the poverty threshold.[17]

In March 2010, the Census Bureau and the Bureau of Labor Statistics were charged with developing a new Supplemental Poverty Measure, drawing upon the 1995 recommendations from the National Academy of Sciences Panel on Poverty and Family Assistance.[18] This new measure wasn't intended to determine eligibility for government assistance programs; rather, it was to simply serve as a basis for discussion.

The most recent product arising from these efforts to provide a more accurate accounting of poverty is Kathleen Short's *The Research Supplemental Poverty Measure: 2012*.[19] Kathleen Short is an economist and a Census Bureau veteran who has written extensively on poverty. **Figure 2** shows how Short's Supplemental Poverty Measure, or SPM, differs from the Official Poverty Measure (OPM) in several important aspects.[20, 21]

Perhaps the largest single change from the Official Poverty Measure to the Supplemental Poverty Measure is the latter's use of a broader basket of necessity goods than just food. The OPM derives its poverty gauge by multiplying the cost of a subsistence diet by three while the SPM uses the 33rd percentile of expenditures on key items: food, clothing, shelter, and utilities and multiplies this by 1.2.

	OFFICIAL POVERTY MEASURE	SUPPLEMENTAL POVERTY MEASURE	SIGNIFICANCE OF NEW MEASURE
Poverty Threshold	Three times the cost of a minimum food diet in 1963 (as adjusted for inflation).	The 33rd percentile of expenditures on food, clothing, shelter, and utilities of consumer units with exactly two children multiplied by 1.2.	Broader measure of consumption, more reflective of actual needs.
Unit of Analysis	A cohabiting couple without children is treated as two unrelated individuals.	Cohabiting partners and their relatives combined into a single resource unit.	Generally results in fewer people classified as poor. If income and dependents were distributed equally between female and male cohabiting partners, there would be no statistical effect on income by gender.
Resource Measure	Gross before-tax cash income including earnings, unemployment compensation, workers' compensation, Social Security, child support, and other sources.	Same, plus noncash benefits (detailed below).	No change, except for noncash benefits.
Noncash Benefits	The values of noncash benefits, such as nutritional assistance, housing assistance, and energy assistance are not incorporated in the official poverty measure.	Adds the value of noncash benefits such as Supplemental Nutrition Assistance Program (SNAP, a.k.a. Food Stamps), Section 8 housing vouchers, and energy assistance.	The inclusion of noncash benefits generally lowers poverty rates most for single-parent households, with a greater reduction in poverty rates for women than men since women are more likely to head single-parent families.
Housing Costs	Not considered.	Derives thresholds from the Consumer Expenditure survey's expenditure estimates, with separate thresholds for renters and owners, as adjusted for differences in housing costs using data on median rents for two-bedroom apartments from the American Community Survey.	Introduces regional housing cost differences, which tend to increase the measured number of poor in areas with high housing costs.
Taxes	Not considered.	Factored in, as the working poor pay payroll taxes.	Taxes did not have a statistically significant impact on most of the subgroup incidences of poverty.
Work-related Expenses	Not considered.	Childcare expenses factored.	Did not have a statistically significant impact.
Out-of-Pocket Medical Expenses	Not considered.	Subtracted from the resource measure.	Statistically significant impact; including this measure reduces gender differences in poverty rates and decreases the measured share of the poor living in female-headed households.

***Figure 2**—The Supplemental Poverty Measure is a more comprehensive gauge of poverty than the Official Poverty Measure, on which the Federal Poverty Level is based.*

As Short developed her Supplemental Poverty Measure, some 60 experts in poverty research gathered under the auspices of the University of Kentucky Center for Poverty Research, the Brookings Institution, and the U.S. Census Bureau in April 2011 to discuss it and the cost of living. They unanimously concluded:

- Some form of adjustment to the SPM thresholds for geographic differences in cost of living is preferable to no adjustment.
- The current method of adjusting the SPM threshold for housing price differences across regions but not other components of the consumption bundle is reasonable until better data became available.
- The adjustment for geographic housing price differences should be based on quality-adjusted rental costs.
- New sponsored research to inform how and for whom to adjust thresholds for geographic differences in cost of living should be a high priority. [22]

It is instructive to examine the different results due to the Supplemental Poverty Measure taking into account a larger array of factors than does the Official Poverty Measure. For instance, the poverty rate for African-Americans in 2012 using the supplemental measure was 25.8 percent, a decrease from the official measure's 27.3 percent. Conversely, for Hispanics, 25.8 percent were considered to be in poverty using the official calculation in 2012, compared to 27.8 percent as calculated by the supplemental measure.[23]

The Supplemental Poverty Measure includes the Supplemental Nutrition Assistance Program (SNAP) payments and housing subsidies, for instance. SNAP eligibility is based on the Federal Poverty Level and funded with federal dollars with no state matching-fund requirement (except for administrative costs), unlike such programs as Medicaid. As a result, a greater proportion of the poor in lower-cost states benefit from SNAP than in states with a high cost of living and attendant higher wages. Thus, there are proportionately fewer people near the Federal Poverty Level who qualify for SNAP in California or New York, while more people would qualify in lower cost states with attendant lower wages.

Further, SNAP and Temporary Assistance for Needy Families (TANF) allow benefits to all minors, regardless of legal status. But housing assistance programs, such as the U.S. Department of Housing and Urban Development's (HUD) Housing Choice Vouchers, also known as Section 8 vouchers, can only go to minors and other people in the United States legally. If parents of illegal status in the United States give birth to a U.S. citizen, that child can qualify for housing assistance, but the HUD program prorates the assistance such that only the citizens and other legal residents of the household count against the total. Thus, a household of five persons, one of whom is a U.S. citizen, would see its housing voucher discounted to 20 percent of the possible total.

Unlike the traditional poverty measure in use for 50-plus years, the U.S. Census Bureau's Supplemental Poverty Measure, with state data first published in 2012, accounts for many, but not all, costs incurred by poor families, such as rent, employment-related childcare expenses, and payroll taxes, but not food, clothing, or other costs not directly related to employment. Further, the weighted cost of housing is likely understated, as the Bureau of Economic Analysis' regional price-parity calculation assigns housing costs at 20.6 percent of household expenditures, likely a low estimate for the poor.[24] This poverty measure also accounts for the value of non-cash benefits, such as housing vouchers and food stamps.

Having explored the differences between the two indexes, we can now compare how the states' poverty rankings change when using the Supplemental Poverty Measure in place of the Official Poverty Measure, as well as how major demographic groups fare in each state under both measures.

Poverty in the States

Figure 3 ranks the states and the District of Columbia by their Official Poverty Measure from the highest rate of poverty to the lowest. In addition, **Figure 3** shows the poverty rates for the three largest groups by race or ethnic national origin in the nation: white, non-Hispanic; black, non-Hispanic; and Hispanic, Mexican national origin. Note how the ranking varies significantly when viewed by demographic group.

Figure 4 (p. 10) shows the Supplemental Poverty Measure rankings for 50 states and the District of Columbia as averaged over four years. It accounts for some costs, such as a rent and payroll taxes, as well as calculating the value of non-cash benefits, such as food stamps and housing vouchers. Under this measure, California moves to the top of the poverty rankings with the nation's highest overall Supplemental Poverty Measure rate, 23.4 percent.

OFFICIAL POVERTY MEASURE, 2009–2012[25]							
TOTAL POPULATION		WHITE, NON-HISPANIC		BLACK, NON-HISPANIC		HISPANIC, MEXICAN NAT'L. ORIGIN	
STATE	RATE	STATE	RATE	STATE	RATE	STATE	RATE
Mississippi	21.2%	West Virginia	16.2%	Minnesota	39.4%	Alabama	39.3%
New Mexico	20.0%	Kentucky	14.6%	Maine	39.1%	Georgia	38.8%
Louisiana	19.5%	Arkansas	14.1%	Indiana	38.8%	Kansas	38.0%
Arizona	19.0%	Tennessee	14.0%	Mississippi	35.0%	Kentucky	38.0%
Dist. of Columbia	18.8%	Mississippi	12.7%	Louisiana	34.5%	South Carolina	37.7%
Georgia	18.4%	Indiana	12.1%	Arkansas	34.2%	Missouri	37.6%
Arkansas	18.2%	Missouri	12.1%	Kentucky	34.1%	New Jersey	36.2%
Texas	17.5%	New Mexico	12.0%	Ohio	34.1%	New York	35.8%
Kentucky	17.1%	Idaho	11.8%	Washington	33.8%	Montana	35.2%
Tennessee	17.0%	South Carolina	11.8%	New Mexico	32.4%	North Carolina	35.1%
North Carolina	16.7%	Louisiana	11.7%	Michigan	32.1%	Oregon	33.3%
South Carolina	16.6%	Maine	11.6%	Kansas	32.0%	Idaho	33.0%
West Virginia	16.6%	Montana	11.6%	Oregon	32.0%	Arkansas	32.9%
Alabama	16.3%	Georgia	11.3%	Iowa	31.6%	Ohio	32.6%
New York	16.2%	North Carolina	11.2%	Wisconsin	31.1%	Florida	31.7%
California	16.1%	Alabama	11.0%	Oklahoma	30.3%	Delaware	31.6%
Indiana	15.8%	Ohio	11.0%	Nevada	30.1%	Oklahoma	31.6%
Missouri	15.3%	Oregon	10.8%	Missouri	29.6%	Arizona	31.5%
Florida	15.2%	Hawaii	10.5%	Dist. of Columbia	29.1%	Minnesota	31.0%
Nevada	15.2%	Michigan	10.5%	Georgia	28.2%	Michigan	30.5%
Oklahoma	15.2%	Oklahoma	10.4%	Tennessee	27.5%	Tennessee	29.9%
U.S. Average	**14.8%**	New York	10.0%	North Dakota	27.4%	Louisiana	29.4%
Ohio	14.8%	Vermont	10.0%	Alabama	27.0%	New Mexico	29.2%
Michigan	14.6%	Nevada	9.9%	Florida	27.0%	Colorado	28.8%
Montana	14.5%	**U.S. Average**	**9.7%**	Pennsylvania	26.8%	South Dakota	28.6%
Idaho	14.4%	Arizona	9.7%	**U.S. Average**	**26.7%**	Wisconsin	27.9%
Kansas	14.1%	South Dakota	9.6%	North Carolina	26.5%	Texas	27.6%
Oregon	13.9%	Kansas	9.5%	Nebraska	26.4%	**U.S. Average**	**27.4%**
South Dakota	13.9%	Florida	9.4%	Rhode Island	26.3%	Utah	26.4%
Rhode Island	13.6%	California	9.3%	South Carolina	26.3%	Illinois	25.6%
Illinois	13.5%	Pennsylvania	8.9%	Vermont	26.2%	Nevada	25.5%
Delaware	12.9%	Alaska	8.6%	South Dakota	25.8%	California	24.9%
Hawaii	12.7%	Washington	8.6%	Illinois	25.5%	Mississippi	24.5%
Colorado	12.5%	Iowa	8.5%	California	25.0%	Nebraska	24.5%
Maine	12.5%	Delaware	8.3%	West Virginia	24.9%	Washington	24.4%
Pennsylvania	12.5%	Illinois	8.3%	Arizona	24.7%	Indiana	24.3%
Washington	11.8%	Rhode Island	8.2%	New York	23.8%	Iowa	24.0%
Alaska	11.5%	Utah	8.2%	Colorado	22.8%	Rhode Island	23.4%
Wisconsin	11.4%	Wisconsin	8.2%	New Jersey	22.4%	Pennsylvania	22.8%
North Dakota	11.3%	Wyoming	8.2%	Texas	22.2%	Wyoming	21.2%
Massachusetts	11.0%	Texas	8.1%	Delaware	21.9%	Connecticut	19.9%
Virginia	10.8%	Virginia	8.0%	Virginia	20.7%	West Virginia	19.9%
Nebraska	10.7%	Colorado	7.8%	Connecticut	19.9%	North Dakota	18.3%
Vermont	10.7%	North Dakota	7.3%	Massachusetts	18.6%	Hawaii	17.2%
Minnesota	10.5%	Massachusetts	7.1%	Wyoming	17.4%	Virginia	16.3%
Iowa	10.4%	Minnesota	7.1%	Maryland	15.6%	New Hampshire	16.2%
Utah	10.4%	New Hampshire	7.1%	New Hampshire	15.5%	Massachusetts	15.9%
New Jersey	10.2%	Nebraska	7.0%	Idaho	14.0%	Dist. of Columbia	14.7%
Maryland	9.9%	Dist. of Columbia	6.4%	Alaska	12.9%	Maryland	14.4%
Wyoming	9.8%	Maryland	6.2%	Hawaii	9.7%	Maine	13.6%
Connecticut	9.4%	Connecticut	5.5%	Utah	8.4%	Alaska	11.9%
New Hampshire	7.5%	New Jersey	4.9%	Montana	7.6%	Vermont	4.3%

***Figure 3**—When looking at demographic subgroups with the non-cost-adjusted Official Poverty Measure, the rankings vary significantly.*

SUPPLEMENTAL POVERTY MEASURE, 2009–2012[26]							
TOTAL POPULATION		WHITE, NON-HISPANIC		BLACK, NON-HISPANIC		HISPANIC, MEXICAN NAT'L.ORIGIN	
STATE	RATE	STATE	RATE	STATE	RATE	STATE	RATE
California	23.4%	Hawaii	16.1%	Dist. of Columbia	32.7%	New Jersey	43.9%
Dist. of Columbia	22.8%	California	14.8%	Nevada	32.3%	New York	42.8%
Florida	19.6%	Arkansas	13.6%	Florida	31.7%	Louisiana	36.0%
Arizona	19.4%	Florida	13.6%	Indiana	30.7%	California	34.0%
Nevada	19.1%	Tennessee	13.1%	California	30.1%	Georgia	32.9%
Georgia	18.4%	Nevada	12.8%	Michigan	29.2%	South Carolina	32.3%
New York	18.0%	Georgia	12.7%	South Dakota	29.2%	Delaware	31.7%
Hawaii	17.4%	West Virginia	12.3%	Arkansas	28.8%	Florida	30.9%
Louisiana	17.1%	Mississippi	12.2%	Minnesota	28.6%	Nevada	30.2%
Texas	16.4%	Arizona	12.1%	Maine	28.3%	Ohio	29.9%
Arkansas	16.3%	Kentucky	11.9%	Wisconsin	28.3%	Kansas	29.8%
Mississippi	16.3%	South Carolina	11.9%	Oregon	28.2%	Arizona	29.3%
New Mexico	16.0%	Oregon	11.8%	Washington	27.3%	**U.S. Average**	**28.4%**
U.S. Average	**15.8%**	Indiana	11.7%	Louisiana	27.2%	Colorado	28.2%
Tennessee	15.3%	Louisiana	11.5%	Ohio	26.3%	Hawaii	27.6%
South Carolina	15.2%	New York	11.2%	New York	25.7%	Illinois	27.6%
Illinois	14.9%	New Mexico	11.1%	Georgia	25.5%	Connecticut	27.1%
New Jersey	14.5%	North Carolina	10.9%	Pennsylvania	25.5%	Alabama	26.8%
Indiana	14.3%	**U.S. Average**	**10.8%**	Kansas	24.9%	Maryland	26.6%
North Carolina	14.3%	Massachusetts	10.7%	New Jersey	24.9%	Utah	25.2%
Alabama	14.2%	Montana	10.7%	**U.S. Average**	**24.7%**	Tennessee	25.0%
Colorado	14.1%	Alabama	10.6%	Illinois	24.4%	Pennsylvania	24.8%
Massachusetts	13.9%	Delaware	10.6%	North Dakota	24.4%	North Carolina	24.7%
Delaware	13.8%	Idaho	10.6%	Missouri	23.7%	Oklahoma	24.6%
Oregon	13.8%	Missouri	10.3%	Arizona	23.4%	Oregon	24.1%
Maryland	13.5%	Colorado	10.1%	Connecticut	23.4%	Dist. of Columbia	23.9%
Kentucky	13.3%	Maine	10.1%	Tennessee	23.3%	Minnesota	23.7%
Michigan	13.3%	Alaska	10.0%	New Mexico	22.8%	Kentucky	23.6%
Rhode Island	13.3%	Michigan	10.0%	Mississippi	22.7%	Missouri	23.5%
Virginia	12.9%	Ohio	10.0%	Rhode Island	22.7%	Texas	22.6%
Ohio	12.7%	Oklahoma	10.0%	Kentucky	22.4%	Indiana	21.8%
Oklahoma	12.7%	Illinois	9.7%	Alabama	22.0%	Michigan	21.3%
Missouri	12.6%	Rhode Island	9.7%	South Carolina	21.8%	Virginia	21.3%
West Virginia	12.4%	Texas	9.7%	Virginia	21.2%	Arkansas	21.1%
Alaska	12.2%	New Hampshire	9.6%	Iowa	20.9%	Washington	20.4%
Connecticut	12.1%	Washington	9.4%	North Carolina	19.9%	New Mexico	19.9%
Pennsylvania	12.1%	Maryland	9.3%	Texas	19.9%	Wisconsin	19.9%
Washington	12.0%	Virginia	9.3%	Wyoming	19.9%	Idaho	19.2%
Idaho	11.7%	Vermont	9.2%	Colorado	19.8%	Mississippi	18.3%
Montana	11.6%	Pennsylvania	8.8%	Massachusetts	19.8%	New Hampshire	18.3%
Kansas	11.4%	Utah	8.8%	Delaware	19.2%	Massachusetts	18.1%
Utah	11.0%	New Jersey	8.7%	Oklahoma	18.8%	Rhode Island	17.7%
South Dakota	10.8%	Connecticut	8.5%	Maryland	18.2%	Montana	17.6%
Wisconsin	10.8%	Dist. of Columbia	8.5%	Hawaii	17.9%	South Dakota	16.6%
Maine	10.6%	Wisconsin	8.5%	Idaho	16.7%	Iowa	16.4%
New Hampshire	10.1%	South Dakota	8.3%	New Hampshire	16.1%	Nebraska	16.1%
Minnesota	10.0%	Wyoming	8.3%	Nebraska	15.9%	Wyoming	14.4%
Nebraska	9.6%	Kansas	8.0%	Montana	15.6%	West Virginia	13.4%
Vermont	9.6%	Nebraska	7.8%	Vermont	14.3%	Maine	13.3%
Wyoming	9.3%	Minnesota	7.5%	West Virginia	14.3%	Vermont	11.8%
North Dakota	9.1%	North Dakota	7.3%	Alaska	13.0%	North Dakota	11.1%
Iowa	8.3%	Iowa	7.0%	Utah	11.3%	Alaska	10.1%

***Figure 4**—Accounting for the cost of living significantly alters our understanding of poverty at the state level.*

ACCOUNTING FOR THE EFFECT OF COST OF LIVING IN THE NEW SUPPLEMENTAL POVERTY MEASURE CHANGES THE PICTURE

- Simply accounting for some housing costs, taxes, and other factors increases California's poverty rate by 7.3 percentage points, to 23.4 percentage points, the nation's highest.
- Due to Mississippi's low cost of living, its poverty rate is 4.9 percentage points lower under the new poverty measure.
- Factoring in the cost of living on the poor allows a more accurate understanding of poverty in America.
- Without factoring in the cost of living, it is very difficult to understand poverty's true relationship to economic variables and public policies, which obscures potential solutions.

California, 16th in the poverty rankings using the Official Poverty Measure, vaults to first under the Supplemental Poverty Measure in **Figure 4**. According to the U.S. Census Bureau Supplemental Poverty Measure report for the years 2001 to 2013, California's average share of people living in poverty was 23.4 percent, 47 percent higher than Texas' 15.9 percent.[27] California consistently ranks as having among the highest levels of poverty.

Figure 5 highlights the Supplemental Poverty Measure rankings of the three largest racial and ethnic/national origin groups in the 12 most populous states. By this basic measure, Virginia and Texas have the lowest overall poverty by group while California and Florida have the highest.

Considering the states' cost of living is a critical first step in understanding poverty. Neglecting a cost of living index hampers, if not precludes, a thorough examination of poverty and its connections to the economy and public policies such as taxes, spending, or anti-poverty programs.

Looking for Patterns in Poverty—The Importance of Considering States' Cost of Living and Demographics

Beyond including a cost of living index, the supplemental poverty index is important for analyzing poverty in the states and searching for correlations to economic factors or public policy variables because it contains state-level data on race and ethnicity.

Figure 6 shows each state's percentage of residents who live in poverty, as calculated by the U.S. Census Bureau's Official Poverty Measure.[28] But recall this measure, in use since 1964, does not take into account the cost of living from state to state and, as a result, tends to understate material poverty in the Northeast and in the West by not accounting for higher prices in those regions.

SUPPLEMENTAL POVERTY RATES ADJUSTED BY DEMOGRAPHICS OF THE 12 MOST POPULOUS STATES

STATE	SUPPLEMENTAL OVERALL POVERTY RATE	SUPPLEMENTAL WHITE RATE	SUPPLEMENTAL BLACK RATE	SUPPLEMENTAL HISPANIC/MEXICAN RATE	DEMOGRAPHICALLY ADJUSTED 50-STATE RANK
Virginia	12.9%	9.3%	21.2%	21.3%	12
Texas	16.4%	9.7%	19.9%	22.6%	17
Pennsylvania	12.1%	8.8%	25.5%	24.8%	24
North Carolina	14.3%	10.9%	19.9%	24.7%	28
Illinois	14.9%	9.7%	24.4%	27.6%	30
Michigan	13.3%	10.0%	29.2%	21.3%	31
Ohio	12.7%	10.0%	26.3%	29.9%	36
New Jersey	14.5%	8.7%	24.9%	43.9%	37
Georgia	18.4%	12.7%	25.5%	32.9%	45
New York	18.0%	11.2%	25.7%	42.8%	46
Florida	19.6%	13.6%	31.7%	30.9%	49
California	23.4%	14.8%	30.1%	34.0%	50

***Figure 5**—Among the 12 largest and most diverse states, Virginia and Texas show the lowest overall poverty among the three largest demographic groups.*

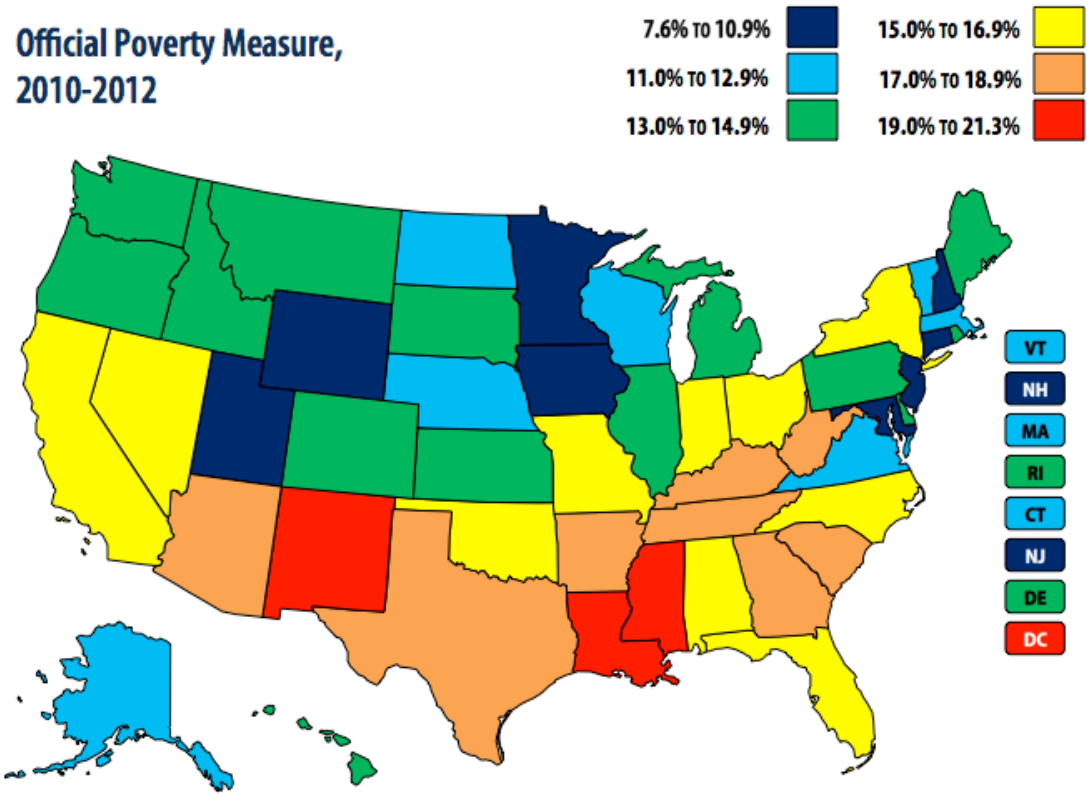

***Figure 6**—The U.S. Census Bureau's Official Poverty Measure shows poverty generally concentrated in the South, but fails to account for variations in the cost of living.*

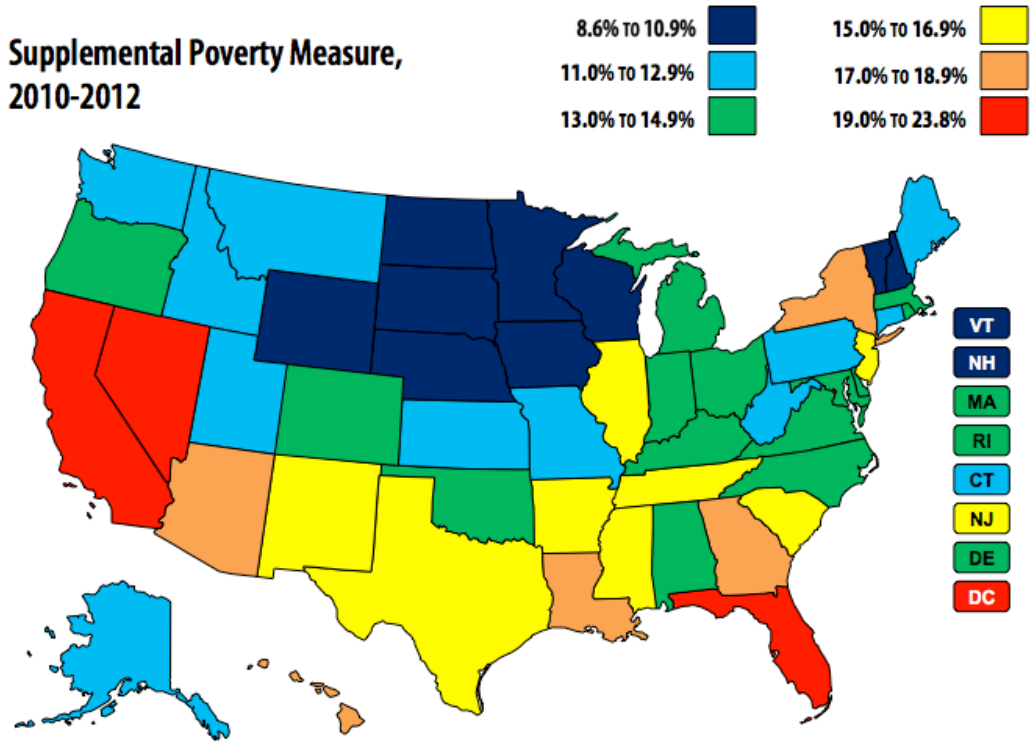

***Figure 7**—The Supplemental Poverty Measure considers regional housing costs, noncash benefits, as well as other factors, with 22 states seeing a statistically significant drop in the measured poverty rate while 12 states and the District of Columbia experienced a significant increase in their poverty rates.*

Figure 7 (p. 12) illustrates the U.S. Census Bureau's Supplemental Poverty Measure in each state by showing the percentage of residents living beneath the poverty line.[29] The Supplemental Poverty Measure, with state data first published in November 2012, accounts for housing and some other costs and includes the value of non-cash benefits, such as the Supplemental Nutritional Assistance Program (a.k.a. food stamps) and housing vouchers.

States have significant demographic differences—ones that render broad and direct poverty comparisons between states difficult. There are a few exceptions though, California and Texas being two that are more similar than different demographically.

California and Texas are both minority-majority states; combined they are home to one in five Americans. Some 39 percent of Californians are white, non-Hispanic vs. 42 percent in Texas. Almost 7 percent of Californians are African-American compared to a little more than 12 percent in Texas. Each state has the same percentage of Hispanics: 38.4 percent. Asians make up 14 percent of California's population compared to 4 percent in Texas.[30]

Yet, despite their demographic similarity, California and Texas take vastly different approaches to taxation, welfare, free enterprise and the civil legal system. At the state and local level, California takes 52 percent more of a share of income than does Texas[31] and has 45 percent more in state and local spending as a share of the economy.[32] In spite of its massive social safety net, purchased at the price of higher taxes and a larger bureaucracy to deliver those services, California's Supplemental Poverty rate is the highest in the nation whereas Texas' rate is at the national average. Averaged from 2010 to 2013, the Golden State's Supplemental Poverty Measure , is 47 percent higher per capita than in Texas (23.4 percent vs. 15.9 percent).[33]

The massive difference in the Supplemental Poverty rates between the two most-populous states, states with similar demographics, but significant departures in tax, regulatory, and poverty policies, suggests a line of further research to determine what links, if any, there might be between public policy and poverty.

Summary Presentation of the Latest Two Years of Supplemental Poverty Measure Data

As recently as 2012, the U.S. Census Bureau's Supplemental Poverty Measure was still considered a novel poverty reporting tool and, as such, was referred to as a "research" measure. By 2013, the Supplemental Poverty Measure report from Census dropped the word "research" from their flagship annual report with the surveys having been gathered and published for four years, with income from years 2009 (surveyed in 2010) through 2012 (surveyed in 2013). This study uses those four years to produce its state level poverty comparisons among the three largest racial and ethnic/national origin groups in the nation because of the limitations of the most recent data, as stated below.

With the field of research into a more comprehensive understanding of poverty still fresh, the U.S. Census Bureau sent out a redesigned Annual Social and Economic Supplement (ASEC) questionnaire in 2014, surveying 30,000 households regarding their 2013 income. The older questionnaire was sent out to 68,000 households. The new survey also affected the Official Poverty Measure as it attempted to address shortcomings in income reporting and response rates. Specifically, the new survey asked different questions about retirement income and health insurance coverage.[34, 35]

Thus, the poverty measure for the year 2013 has a break, rendering comparisons before and after 2013 difficult. **Figure 8** from Census' 2015 Supplemental Poverty Measure report illustrates the result of the redesigned survey.[36]

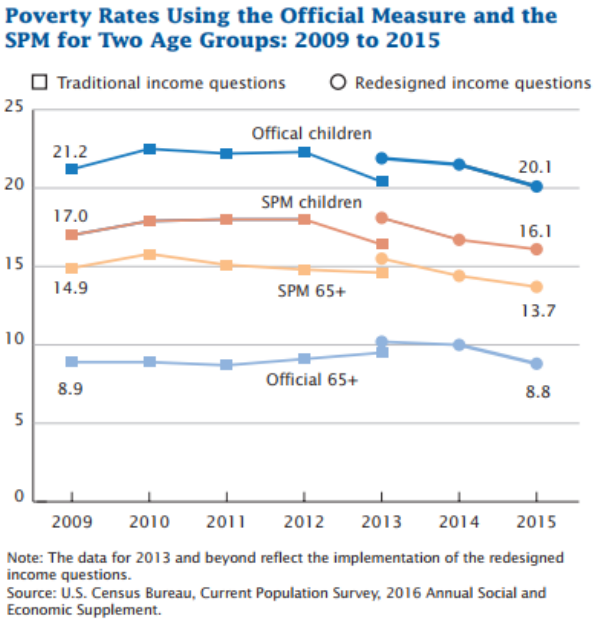

***Figure 8**—A new survey, introduced in 2013, caused a break in the income data.*

Demographers at the Census Bureau and the curators of the Integrated Public Use Microdata Series (IPUMS) at the University of Minnesota advised that, due to the smaller sample sizes for some of the surveyed populations at the state level, including more surveyed years would reduce unacceptable high margins of error. For example, in the 2013 survey for 2012 income, only 10 Hispanics of Mexican national origin were surveyed in Vermont—and none of them were below the Supplemental Poverty Measure threshold. Extending the sample size to cover four years, for income in years 2009 to 2012, expands the number of people of Mexican national origin covered by the survey in Vermont to 36 with only three people calculated to be under the Supplemental Poverty Measure threshold. By contrast, California, with the nation's largest Mexican national origin population, saw 30,552 people covered by the survey responses while Texas had 20,841 during the same four years.

Thus, using the most recent Supplemental Poverty Measure information is problematic when breaking out demographic groups at the state level in that only two years of comparable survey data is available. The University of Minnesota's online IPUMS database does not yet allow to a user to disaggregate data from the 2013 survey year to distinguish between the old and redesigned surveys. So, returning to Vermont, surveys issued in 2015 and 2016 for income in 2014 and 2015, covered 23 people of Mexican national origin, four of whom were under the Supplemental Poverty level. **Figure 9** illustrates the small sample sizes (under 100) of Vermont and other states from the two most recent years of survey data.[37]

Keeping in mind the large standard errors attendant with the small sample sizes, we can return to the state-by-state comparisons using the two most recent years of data available for the redesigned survey, 2014 and 2015. There are three variables at work here: different years with changing relative economic conditions between the states; a changed survey methodology that tended to reduce observed poverty in Census' West region; and the margins of error that tend to be larger in states with small sample sizes, especially for certain demographic groups. Nonetheless, these newer data show a fair amount of consistency to the older data, especially for the larger states with smaller margins of error. **Figure 10** repeats the presentation of Supplemental Poverty data by state and for the three largest racial and national origin groups in America but with the new years of data using the redesigned surveys.[38]

For the overall Supplemental Poverty Measure, California and Florida have the highest and second highest Supplemental Poverty Measure rates in the nation, as was the case with the survey information looking at income in the years 2009 to 2012 in **Figure 4**.

STATE	SAMPLE SIZE	STANDARD ERROR OF EACH PERCENT
Vermont	23	+/- 9.94
Maine	25	+/- 8.10
New Hampshire	44	+/- 6.62
Rhode Island	49	+/- 6.52
West Virginia	50	+/- 4.37
Connecticut	60	+/- 5.40
Massachusetts	65	+/- 5.08
South Dakota	81	+/- 3.65
Maryland	93	+/- 2.74
Number of people of Mexican national origin sampled in 2015 and 2016 and determined to have income under the Supplemental Poverty level threshold.		

***Figure 9**—High error rates are a challenge with small sample sizes.*

SUPPLEMENTAL POVERTY MEASURE, 2014-2015							
TOTAL POPULATION		WHITE, NON-HISPANIC		BLACK, NON-HISPANIC		HISPANIC, MEXICAN NAT'L.ORIGIN	
STATE	RATE	STATE	RATE	STATE	RATE	STATE	RATE
D.C.	20.8%	Florida	14.0%	North Dakota	40.8%	New York	43.9%
California	20.4%	Mississippi	13.7%	Maine	37.8%	New Jersey	40.8%
Florida	19.3%	California	13.3%	New Mexico	36.3%	Kentucky	35.1%
Louisiana	18.4%	Kentucky	13.3%	Arizona	32.5%	Virginia	32.7%
Arizona	18.2%	West Virginia	12.6%	D.C.	30.8%	Vermont	31.9%
Mississippi	16.9%	Tennessee	12.4%	Louisiana	28.5%	Pennsylvania	29.5%
New York	16.9%	Louisiana	12.1%	Michigan	28.4%	California	28.7%
Nevada	16.4%	Hawaii	11.9%	Florida	27.5%	Florida	28.5%
Georgia	16.1%	Nevada	11.9%	Indiana	27.2%	Rhode Island	28.5%
New Mexico	15.9%	Arkansas	11.7%	Kentucky	27.0%	Alabama	27.3%
New Jersey	15.8%	Oregon	11.6%	Nevada	26.9%	New Hampshire	25.2%
Kentucky	15.7%	Massachusetts	11.5%	Illinois	25.6%	Wisconsin	25.2%
Hawaii	15.4%	New York	11.4%	New Jersey	25.4%	Arizona	24.9%
Arkansas	15.0%	Oklahoma	11.4%	Iowa	25.3%	Arkansas	24.8%
Massachusetts	14.8%	Arizona	11.3%	California	24.9%	Ohio	23.8%
South Carolina	14.8%	South Carolina	11.2%	Vermont	24.9%	**U.S. Average**	**23.8%**
U.S. Average	**14.8%**	Alabama	10.9%	Missouri	24.8%	Nevada	23.7%
Tennessee	14.7%	New Mexico	10.9%	Colorado	24.4%	North Carolina	23.4%
Texas	14.7%	Maine	10.8%	Arkansas	24.0%	North Dakota	23.3%
Virginia	14.3%	North Carolina	10.7%	Pennsylvania	23.7%	Georgia	22.6%
Alabama	13.8%	Georgia	10.6%	Georgia	23.6%	Delaware	22.2%
Maryland	13.6%	Virginia	10.6%	South Carolina	23.4%	Connecticut	22.1%
North Carolina	13.4%	**U.S. Average**	**10.4%**	**U.S. Average**	**23.0%**	D.C.	22.1%
Illinois	13.1%	Indiana	10.2%	Nebraska	21.8%	Oregon	21.1%
Oregon	13.1%	Washington	10.1%	Virginia	21.4%	Massachusetts	20.9%
Oklahoma	12.9%	Montana	10.0%	Ohio	21.0%	Indiana	20.8%
West Virginia	12.8%	Texas	9.5%	Mississippi	20.8%	Alaska	20.7%
Indiana	12.6%	Colorado	9.4%	New York	20.7%	Louisiana	20.3%
Michigan	12.0%	New Jersey	9.4%	Tennessee	20.7%	Hawaii	19.8%
Colorado	11.7%	Ohio	9.3%	Alabama	20.6%	Oklahoma	19.8%
Pennsylvania	11.7%	Idaho	9.1%	Minnesota	20.5%	Illinois	19.7%
Alaska	11.6%	Maryland	9.1%	Wisconsin	20.5%	Maine	19.6%
Connecticut	11.6%	Alaska	9.0%	Washington	20.1%	Texas	19.5%
Ohio	11.6%	South Dakota	9.0%	South Dakota	19.9%	Tennessee	19.4%
Washington	11.5%	Connecticut	8.8%	Kansas	19.7%	Colorado	19.3%
Maine	11.4%	Kansas	8.8%	Massachusetts	19.7%	Missouri	19.1%
Rhode Island	11.4%	Illinois	8.7%	Texas	19.7%	Idaho	17.7%
Delaware	11.3%	Wyoming	8.7%	Maryland	19.6%	Nebraska	17.7%
Montana	11.0%	Delaware	8.6%	North Carolina	18.6%	Michigan	17.6%
Wisconsin	10.8%	Michigan	8.5%	Rhode Island	17.9%	New Mexico	17.3%
Kansas	10.4%	New Hampshire	8.5%	Delaware	17.1%	Utah	17.3%
South Dakota	10.4%	Pennsylvania	8.5%	Oklahoma	15.8%	South Carolina	16.2%
Idaho	10.2%	Wisconsin	8.5%	West Virginia	15.2%	Washington	15.4%
Missouri	10.2%	Iowa	8.3%	Connecticut	14.4%	Wyoming	15.3%
North Dakota	9.6%	Rhode Island	8.2%	Utah	14.4%	Minnesota	15.0%
Wyoming	9.5%	Vermont	8.1%	Wyoming	13.7%	Kansas	14.2%
Nebraska	9.3%	North Dakota	8.0%	Oregon	13.5%	South Dakota	12.1%
Utah	9.3%	Utah	7.8%	Alaska	12.5%	Montana	10.7%
New Hampshire	9.1%	Missouri	7.5%	Hawaii	12.3%	West Virginia	10.4%
Iowa	8.9%	Nebraska	7.2%	Idaho	10.0%	Mississippi	10.0%
Vermont	8.7%	D.C.	7.0%	Montana	5.3%	Maryland	7.4%
Minnesota	8.2%	Minnesota	6.2%	New Hampshire	4.7%	Iowa	6.0%

***Figure 10**—The latest Supplemental Poverty Measure for years 2014 and 2015 shows largely incremental changes compared to the 2009-2012 data, at least among the most populous states.*

Figure 11 returns to the Supplemental Poverty rates for the twelve most populous states as shown previously in **Figure 5**, only using the last two years of data available. Among the twelve largest states, only Texas shows a poverty rate below the national average for the total population and the three largest demographic groups by race or national origin. ☆

Supplemental Poverty Rates for the Twelve Most Populous States for 2014-2015

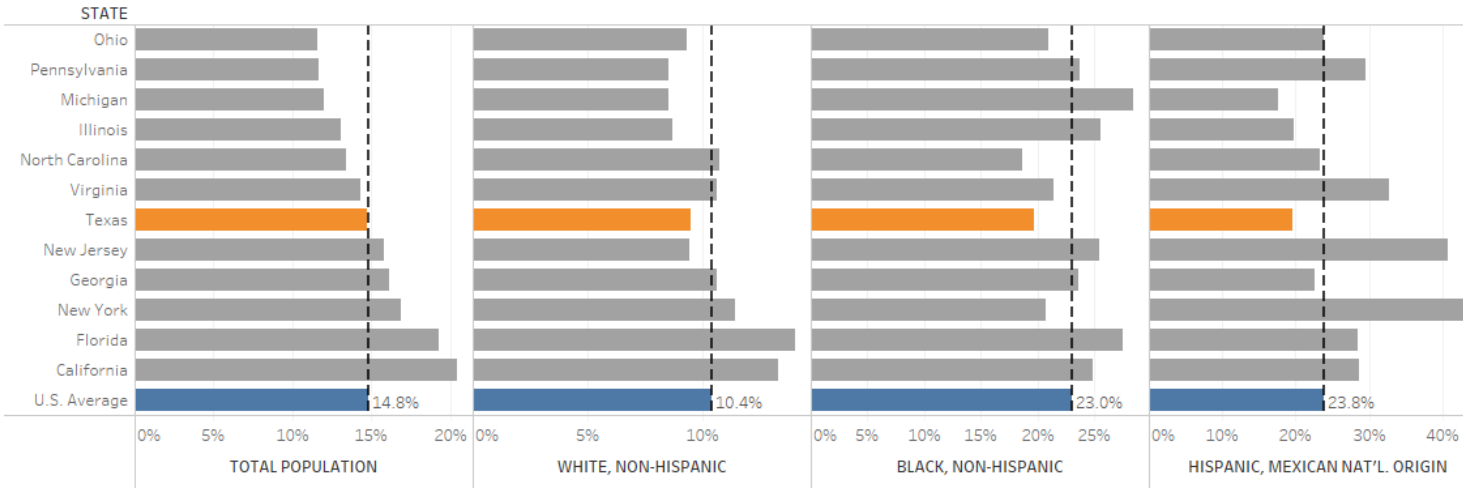

Figure 11—Texas is alone among the dozen most populous states in having all three of the largest racial and national origin categories with below average Supplemental Poverty rates.

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About the Author

Chuck DeVore is vice president of national initiatives at the Texas Public Policy Foundation, which he joined in 2011.

From 2004 to 2010, DeVore represented a half-million people in the California State Assembly. He was vice chairman of both the Assembly Committee on Revenue and Taxation and the Veterans Affairs Committee, and also served on the Budget Committee as well as the Joint Legislative Audit Committee. He was named Legislator of the Year by seven groups. DeVore worked in the aerospace industry for 13 years as an executive before his election in 2004.

He also served as a Reagan White House appointee in the Pentagon from 1986 to 1988 as special assistant for foreign affairs, where his duties included working with Congress to advance the President's foreign and military policy. He later served on staff of a U.S. Congressman. From 1991 to 1996, he served as a City Commissioner for the City of Irvine.

DeVore served in the Army National Guard from 1983 to 2007 as an intelligence officer and is a lieutenant colonel in the U.S. Army (retired) Reserve.

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