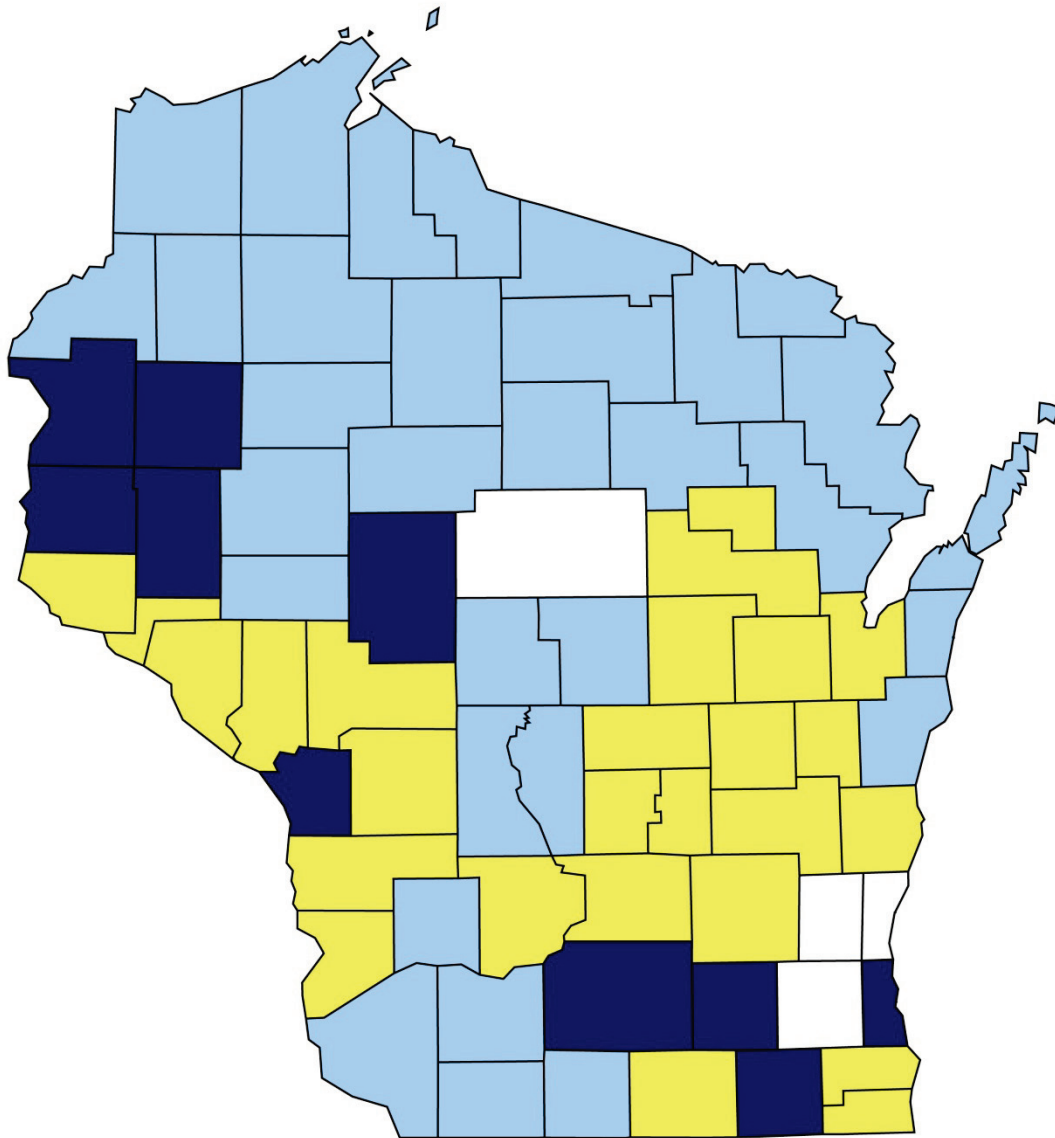


Wisconsin Poverty Report: New Measure, Broader View



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This report is available in a printable format on IRP's Web site at www.irp.wisc.edu. Two longer, companion reports—*Wisconsin Poverty Report: Methodology and Results for 2008* and *Wisconsin Poverty Report: Technical Appendix*—are also available at www.irp.wisc.edu.



The Institute for Research on Poverty is a unit within the College of Letters and Science at the University of Wisconsin–Madison. It was established in 1966 as the nation's original poverty research center to study the causes, consequences, and cures of poverty and social inequality in the United States. Major funding is provided by the Assistant Secretary for Planning and Evaluation in the U.S. Department of Health and Human Services.



Executive Summary

To fight poverty and promote opportunity, we must first accurately define the extent of poverty in our state. The official poverty measure captures only pre-tax cash income and omits the effectiveness of federal and state antipoverty policies such as nutrition assistance (FoodShare) and the Earned Income Tax Credit. To get a broader, more precise view of Wisconsin poverty, researchers at the University of Wisconsin–Madison’s Institute for Research on Poverty have created a Wisconsin-specific measure that more accurately reflects resources and need in our state. This second annual *Wisconsin Poverty Report* presents our results.

Key findings under the improved Wisconsin measure reveal disturbing trends, especially among Wisconsin’s children and elderly. The new measure finds a somewhat higher overall poverty rate in Wisconsin in 2008, 11.2 percent, rather than 10.2 percent in the official measure. Poverty rates under the Wisconsin Poverty Measure are also higher than official poverty rates for children and elderly subgroups, with child poverty rising from 13.3 to 13.6 percent and elderly poverty increasing much more, from 7.1 percent to 10.4 percent.

Similarly, most areas within the state have poverty rates that are slightly higher than the official poverty rate. The statewide poverty rate would be even higher—2.0 percentage points higher—but for financial resources provided by tax credits, nutrition assistance under FoodShare, public housing, and energy assistance. Much of this reduction in poverty is due to refundable income tax credits and FoodShare assistance, each of which reduces poverty rates by 0.9 percentage points. The new measure also reflects the counting of work-related costs and out-of-pocket health care expenses. In the end, the new measure provides a more complete picture of who is living in poverty in Wisconsin and how antipoverty policies are affecting those they target. It will also serve as a national model for other states and localities seeking to develop their own measures of need.

INTRODUCTION

For many years, researchers and policymakers in federal and state governments have called for a more complete picture of poverty in the United States. The official poverty measure, while useful, captures only pre-tax cash income. This approach is troubling because it does not help define who is living in poverty taking into account all resources available to the family, nor does it show the effectiveness of antipoverty policies. Several states and localities have tried to address these limitations by developing their own alternative poverty measures. The Wisconsin Poverty Project is building on the poverty measurement efforts of the federal government and New York City to learn more about how both federal and Wisconsin programs affect poverty.

This report presents initial results for the new Wisconsin Poverty Measure, which reflects not only income, but the value of taxes and public benefits available to low-income Wisconsin residents as well.¹ The strengths of the Wisconsin Poverty Measure are its ability to compare poverty across different demographic subgroups within the state (in this report we focus on children and the elderly), to compare poverty across different counties and regions within the state, and to reflect the specific policies and priorities of Wisconsin policymakers and residents as they affect the poor.

METHODS

All poverty measures require two components: a measure of economic need and a comparable and consistent measure of resources, such as income, to meet these needs. Our measure of resources includes cash income, plus major noncash benefits: tax credits and other tax provisions, food stamps (known as FoodShare in Wisconsin and as the Supplemental Nutrition Assistance Program or SNAP on the federal level), public housing, and energy assistance, less work expenses like child care and transportation. Our threshold (measure of need) is based on a threshold recommended by the National Academy of Sciences, but we make an adjustment for Wisconsin's lower cost of living relative to the nation. We also make adjustments to need for families within Wisconsin based on differences in housing tenure (renting versus owning), regional differences in cost of living within the state, differences in family size and composition, and differences in expected out-of-pocket medical expenses. These adjustments determine a level of need specific to each family unit, which is then compared to the family's available resources to determine poverty status.

To assess resources and needs, we used the U.S. Census Bureau's 2008 American Community Survey (ACS), supplemented with administrative data collected in the state of Wisconsin. The ACS collects sufficient data to allow us to report poverty rates for the 10 largest counties in Wisconsin (including six sub-county breakdowns within Milwaukee), as well as for 12 multicounty areas that encompass the rest of the state. In addition, the ACS includes a vast amount of information on housing costs, allowing us to bore down within the state to adjust for regional differences in housing costs across Wisconsin.

The detailed housing data and large sample size are strengths of the ACS; however, the survey also has drawbacks for our measure. For instance, the ACS asks respondents whether they receive food stamps, but not the amount of the benefit. With the help of detailed administrative data, we were able to impute FoodShare benefit amounts. For other in-kind benefits such as energy assistance and public housing we had to estimate both who received benefits and how much, based on ACS income data and on detailed state administrative data on program participation, age, and other characteristics of beneficiaries and amounts of benefits by local area.

¹This paper presents key findings from our work on the Wisconsin Poverty Measure. For further detail, please see the longer and more detailed companion reports, *Wisconsin Poverty Report: Methodology and Results for 2008* and *Wisconsin Poverty Report: Technical Appendix* available on the IRP Web site at <http://www.irp.wisc.edu>.

To compare the resources families have to the needs they face, we grouped individuals into poverty units, which reflect patterns of income and consumption-sharing across families and individuals living within households. Our poverty unit is expanded beyond the Census Bureau family unit to include unmarried partners who cohabit, foster children, and unrelated minor children.

Poverty status is determined by comparing resources to need. The poverty threshold is a “line” based on a number of factors to capture a floor amount of income that is needed to get by. The basic starting point is the current experimental federal poverty lines, published by the Census Bureau and based on food, clothing, shelter, and other expenses set at roughly the 33rd percentile of national consumption for a two-child, two-adult family. In 2008, the national threshold for such a unit was \$27,043.² Our base poverty threshold without medical expenses was \$24,842 for Wisconsin due to the state’s lower cost of living relative to many other parts of the United States. For comparison, the official U.S. poverty line for a two-child, two-adult family in 2008 was \$21,834.

We made additional adjustments to the poverty lines based on differences in housing costs (owners with mortgage, owners without mortgage, and renters); the cost of living around the state; family size and composition; and expected medical expenses (varying across families based on health insurance status, presence of elders, and health status). These measures of need were then compared to each poverty unit’s available resources to determine poverty status.

In summary, the new poverty measure takes account of federal and state policies designed to increase incomes for low-income persons such as FoodShare, the Wisconsin Homestead Tax Credit, and the federal and state Earned Income Tax Credits (EITC). It also reflects state efforts to insure families and children under BadgerCare and therefore reduce out-of-pocket health care costs. And finally, it takes account of child care expenses, transportation costs, and other work expenses that reduce resources available for low-income workers to meet their family’s basic needs. As we demonstrate in this report, differences in benefits and expenses each have a large effect on poverty in Wisconsin.

RESULTS: WISCONSIN POVERTY UNDER THE NEW MEASURE

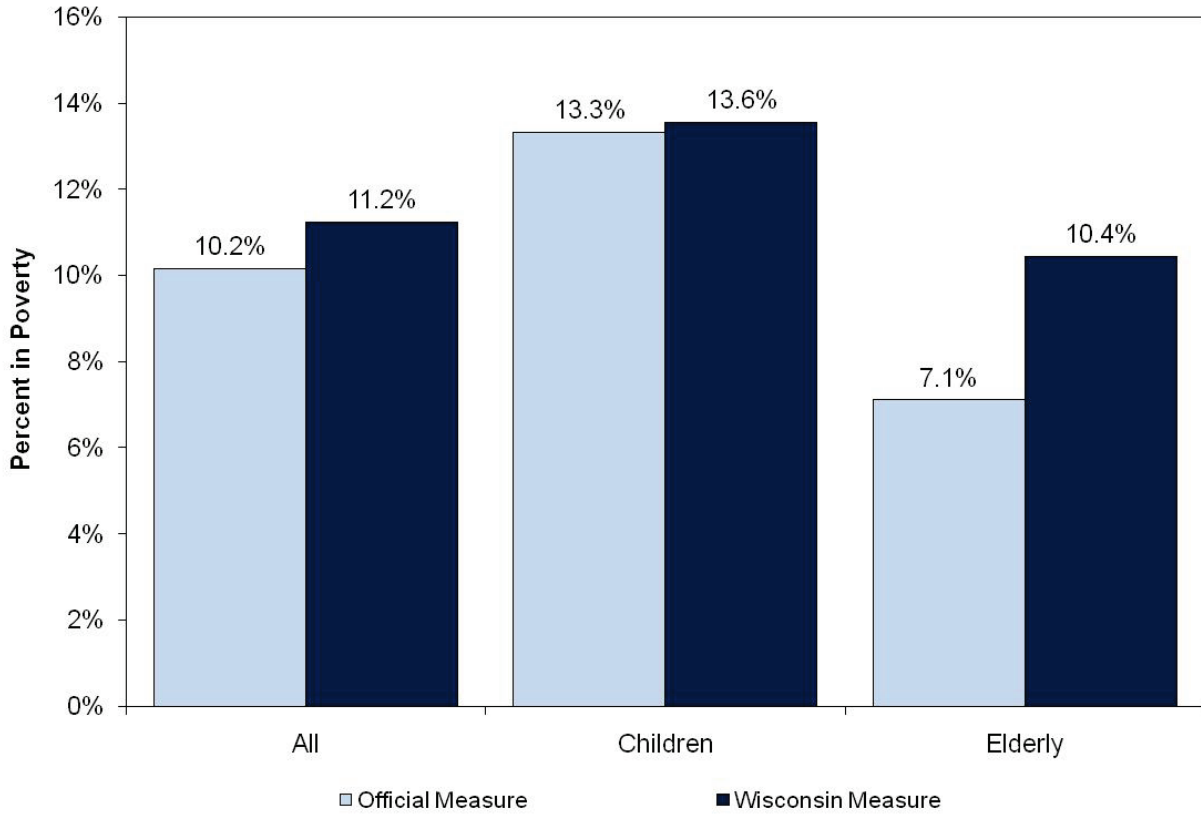
Our improved Wisconsin measure finds a somewhat higher poverty rate in Wisconsin in 2008, 11.2 percent, rather than 10.2 percent in the official measure.³ This increase of 1.0 percentage point is the net impact of many offsetting adjustments: noncash benefits and refundable tax credits that reduce poverty by increasing family resources, and adjustments for medical and work expenses that increase poverty rates.

Poverty rates under the Wisconsin Poverty Measure are higher than official poverty rates for both children and elderly subgroups, as well as for the population overall (see Figure 1). The increase in measured poverty is particularly steep for the elderly, whose poverty rate increases from 7.1 percent to 10.4 percent. Child poverty also increases, though by less, rising from 13.3 percent to 13.6 percent. Child poverty still remains considerably higher than elderly poverty under the Wisconsin measure (13.6 percent compared to 10.4 percent).

²The Census Bureau has calculated four different versions of the threshold for 1999–2008, as shown in Technical Appendix I and found at http://www.census.gov/hhes/www/povmeas/web_tab5_povertythres2008.xls. We used the version that included repayment of mortgage principal for owned housing but did not include medical expenses (which we add in separately below).

³We found a margin of error of 0.5 percent for the state poverty rate under the Wisconsin Poverty Measure, meaning that we can state with 90 percent confidence that the true poverty rate lies between 10.7 and 11.8 percent.

Figure 1. Wisconsin Poverty Rates in 2008 by Age under the Official Poverty Measure and Wisconsin Poverty Measure



Source: IRP tabulations of 2008 American Community Survey data.

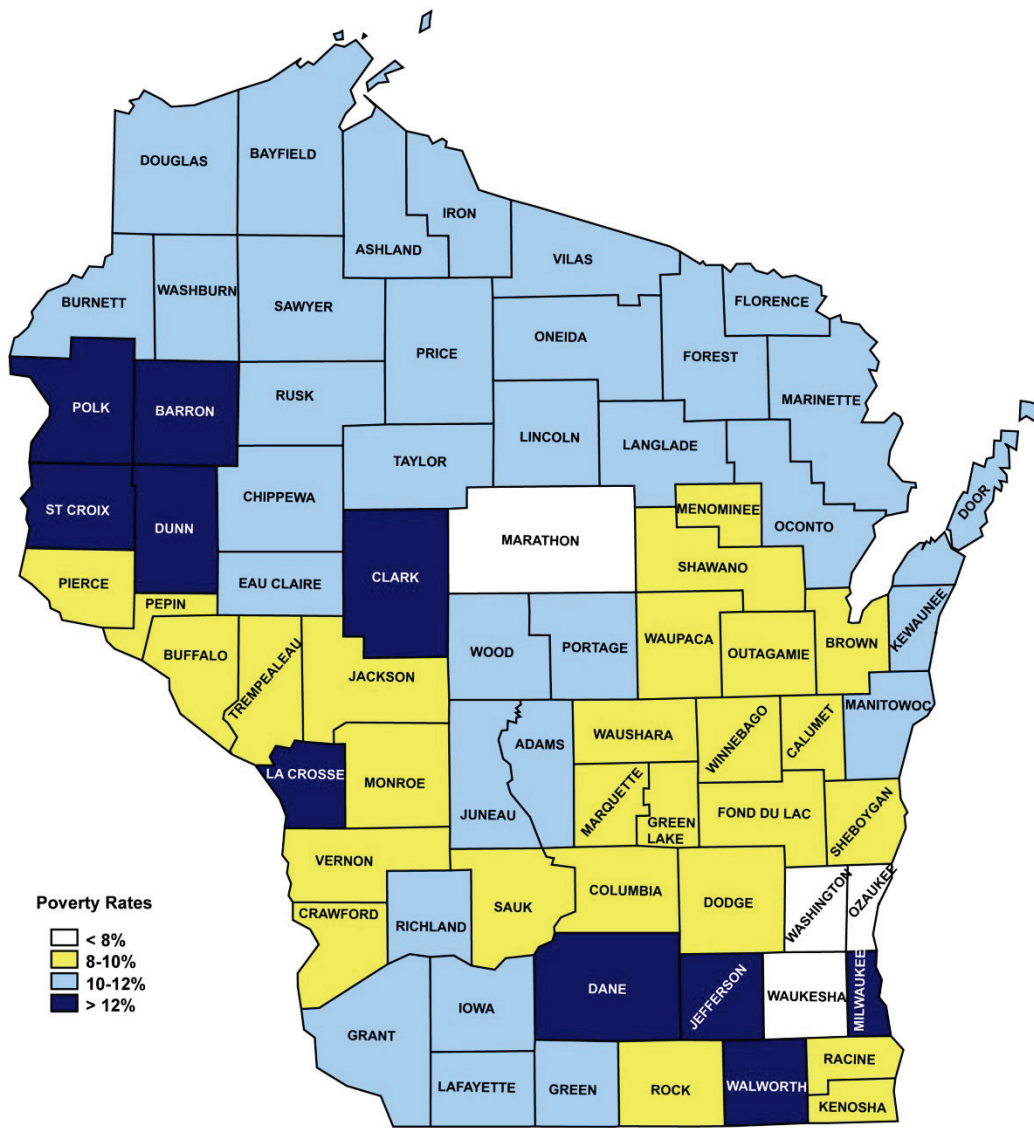
Consistent with our report approach last year, we have generated estimated poverty rates for the 10 largest counties in Wisconsin, as well as for 12 multicounty areas that encompass the remaining areas of the state. The multicounty areas used in this report were predetermined by the boundary lines for the Census Bureau’s Public Use Microdata Areas (PUMAs) and cannot be broken out further for single-year poverty estimates.⁴ While some of the multicounty areas comprise only two counties (e.g., Ozaukee and Washington), others require as many as seven to ten of the more rural counties in order to gain sufficient sample size to obtain reliable estimates.

Under the Wisconsin measure, the poverty rate ranges from 18.8 percent in Milwaukee County to 4.6 percent in the two-county area of Ozaukee/Washington, two of Milwaukee County’s most affluent neighbors. Under the official measure, the range was slightly smaller, from 17.4 percent in Milwaukee County to 3.6 percent in Waukesha County (another wealthy suburb bordering Milwaukee). Most counties and multicounty areas have poverty rates that are roughly 0.5 to 2.5 percentage points higher under the Wisconsin measure than the official poverty rate.⁵

⁴The ACS collects data on a continuous basis, and this year, the Census Bureau plans to release a five-year data file (2005–2009) that will allow estimates at the county level.

⁵Due to the smaller sample sizes of these within-state areas, the margins of error are larger than those for the statewide poverty rate. For some counties and multicounty areas, there is no statistically significant difference in poverty between the official measure and the Wisconsin Poverty Measure. Margins of error can be found in the *Wisconsin Poverty Report: Technical Appendix*.

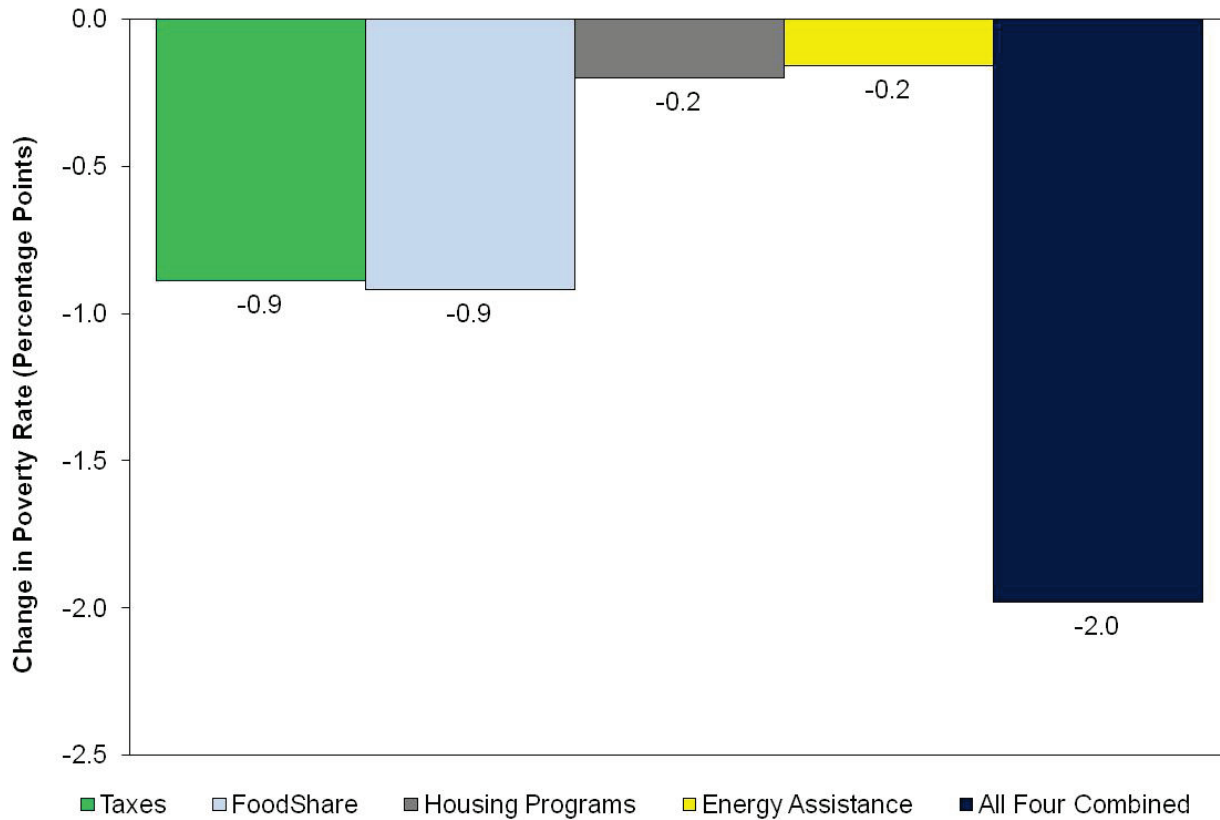
Figure 2. Wisconsin Poverty Rates in 2008 under the Wisconsin Poverty Measure, by County and Multicounty Area



Milwaukee and La Crosse counties have poverty rates considerably above the average for the state (18.8 percent and 13.9 percent, respectively). The third highest poverty rate is in Dane County (Madison and surrounding communities, 13.1 percent), followed by a five-county area near the city of Menomonie (12.3 percent) and the two-county area of Jefferson/Walworth (12.3 percent). These five areas—three counties and two multicounty areas—have poverty rates above 12 percent in 2008 under the Wisconsin measure (see Figure 2). Only three areas have poverty of less than 8 percent under the Wisconsin Poverty Measure: Waukesha County (6.1 percent), Marathon County (6.1 percent), and the two-county area of Ozaukee/Washington (4.6 percent). These three areas also had the three lowest poverty rates under the official measure, although the exact ranking differs under the two measures.

The Wisconsin Poverty Measure allows us to examine the effects of antipoverty policies, whereas the official measure does not. Our measure of resources includes cash income, plus the net effects of taxes (including

Figure 3. Effects of Taxes and Public Benefits on Wisconsin Poverty Rates



Source: IRP tabulations of 2008 American Community Survey data.

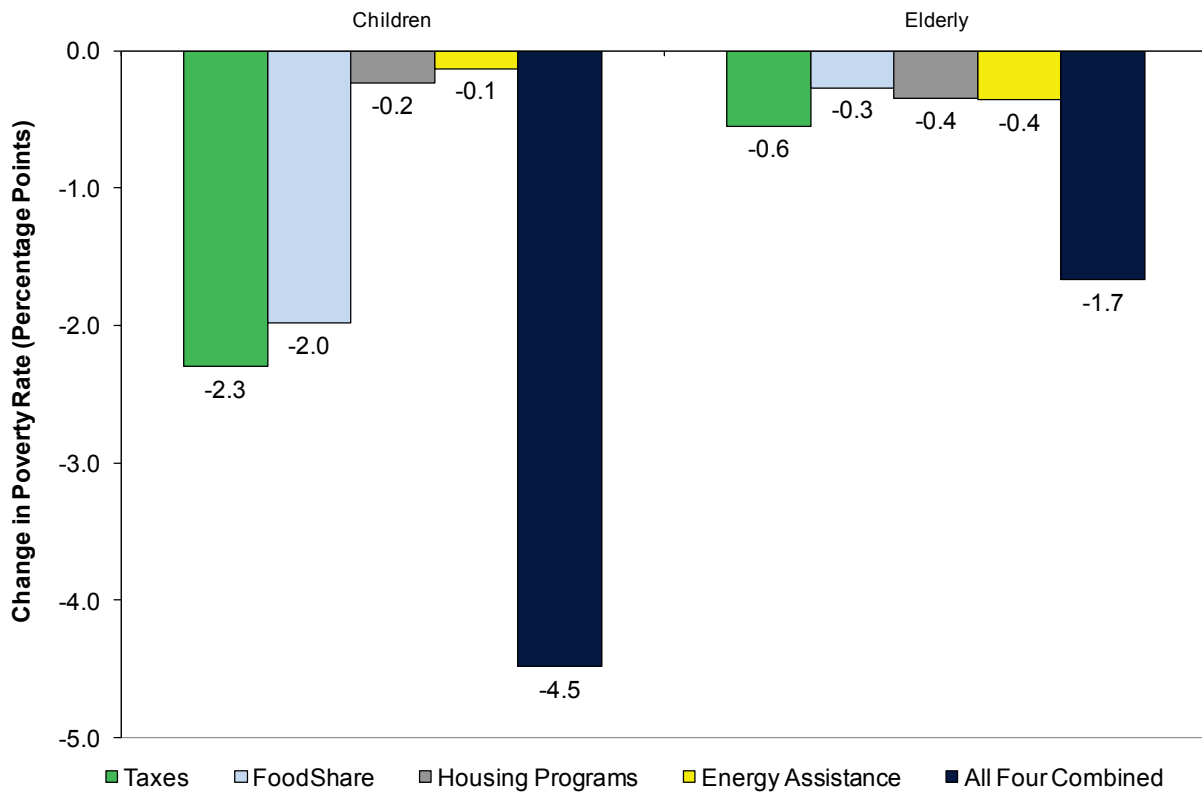
Note: The first four columns show individual marginal effects; that is, the poverty rate without FoodShare benefits assumes a full Wisconsin measure otherwise (i.e., taxes, housing, and energy assistance are counted). The final column shows the cumulative effect of all four programs.

refundable tax credits as well as the effects of payroll taxes for Social Security), major noncash benefits, such as the Supplemental Nutrition Assistance Program (FoodShare), public housing, and the Low-Income Home Energy Assistance Program (LIHEAP). Current policies on taxes, food stamps, public housing, and energy assistance reduce poverty by 2.0 percentage points (see Figure 3).

Most of this poverty reduction results from refundable income tax credits and FoodShare assistance. As shown in Figure 3, the marginal impact of tax credits alone is a reduction of 0.9 percentage points, and that of FoodShare benefits is slightly more than 0.9 percentage points. Many poor people, especially those with children, receive tax credits that are larger than their owed income and payroll taxes, as a result of the federal and state EITC, and the Wisconsin Homestead Credit. And thus the net impact of federal and state income and payroll taxes is a reduction in poverty rates. FoodShare benefits also have a fairly large antipoverty impact, reflecting the size of the program (one out of eight people in Wisconsin received at least one month of these benefits in 2008) and its focus on providing food assistance to low-income populations.

Housing and energy assistance provide assistance to fewer households and have a smaller marginal effect on poverty; the existence of these programs (and the inclusion of their value in our poverty measure) reduces poverty by approximately 0.2 percentage points each.

Figure 4. Effects of Taxes and Public Benefits on Wisconsin Poverty Rates by Age



Source: IRP tabulations of 2008 American Community Survey data.

The marginal antipoverty effects of taxes and SNAP are much larger for children than for the elderly, as shown in Figure 4, which shows the marginal increase in poverty rates by age if not for taxes, FoodShare, housing assistance, LIHEAP, and the combined impact of all four policies. Taxes and FoodShare benefits each reduce child poverty by approximately 2 percentage points or 15 percent, on the margin. The large impacts of taxes and FoodShare benefits on child poverty are not unexpected, given that the Earned Income Tax Credit is largely restricted to families with children, and families with children have a particularly high participation rate in the FoodShare program. The elderly do gain a net benefit from tax credits, however, which is likely a reflection of the Wisconsin Homestead Credit. Under our measure, housing and low-income home energy assistance (LIHEAP) benefits reduce elderly poverty more than they reduce child poverty.

Adjustments to income for work expenses and the effects of necessary out-of-pocket health care costs also make a big difference in poverty. The costs of medical expenses (even with BadgerCare) and child care, commuting costs, and other work-related expenses have the effect of increasing poverty, reflecting the fact that these expenses reduce families’ income available to meet food, clothing, shelter, utilities, and other basic needs (see full report). The higher poverty rates found here reflect the offsetting effects of higher expenses like health care and child care and increased resources due to food and housing benefits and refundable tax credits. Both are affected by policy and both make a difference in outcomes for all people, for children, and for the elderly.

CONCLUSION AND MOVING FORWARD

Using a more complete measure of the resources and needs of Wisconsin residents, we found higher overall poverty rates than under the official poverty measure. The Wisconsin measure also allowed us to look within the state at variation by age and region, as well as at the effects of Wisconsin's policies that help individuals and families meet their basic needs.

This report describes the broad outlines of our efforts to date at developing the Wisconsin Poverty Measure to reflect the needs and concerns of Wisconsin citizens and the effects of its policies on poor people. In describing our model, we have tried to explain the choices made to construct a Wisconsin Poverty Measure and to highlight the effects of our choices. Our model's components reflect choices based on expert research, including the 1995 National Academy of Sciences panel and the work of other states and localities on alternative poverty measures, and are based on discussions with Wisconsinites who communicated priorities specific to this state. We also were influenced by the opportunities and challenges of the ACS data and our state's administrative data.

Within Wisconsin, we hope that our model will reflect the Wisconsin Idea, offering a service to the State of Wisconsin by providing a more complete picture of who is living in poverty, and a tool for estimating how antipoverty policies are affecting those they target. We also hope that the Wisconsin model, both now and as it is refined further, can serve as a national model so that other states and localities can follow our lead and create their own measure, substituting their own state and local data and their own choices for poverty measurement, given state and local needs.

As we move forward, we plan to continue improving the model, including new work on the modules for child care and work expenses and out-of-pocket health care costs. In the coming year as new data are made available, we plan to report on poverty in 2009, a period when the state and nation were more strongly affected by the recession. In addition to refining the model, we will expand capacity for simulating the effects of recent and proposed policy changes at the federal and state levels, such as the effect of the 2009 American Recovery and Reinvestment Act provisions, including higher levels of tax credits and higher FoodShare benefits, on poverty within Wisconsin. In following years, we will also mimic the new federal Supplemental Poverty Measure as its details are determined.



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