

Written Statement Submitted to the Subcommittee on  
Income Security and Family Support

Committee on Ways and Means  
U.S. House of Representatives

Hearing on

Measuring American Poverty Act

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Mr. Chairman, members of the Subcommittee, I am pleased to submit testimony to the Subcommittee on Income Security and Family Support of the Ways and Means Committee and applaud Chairman McDermott's leadership in the movement to development a poverty measure that reflects the reality of poverty today. I am Roger A Clay, Jr., President of the Insight Center for Community Economic Development (formerly NEDLC). The Insight Center is a 39-year old national research, consulting, and legal organization dedicated to building economic health and opportunity in vulnerable communities throughout the nation. We partner with a diverse range of colleagues to develop innovative strategies and programs that result in systemic change and help people become, and remain, economically secure.

The Insight Center strongly supports the creation of an alternative poverty measure such as the Modern Poverty Measure called for in Representative McDermott's draft proposal of the Measuring American Poverty Act of 2008. We would like to specifically encourage that the bill, when introduced:

- **Include the cost of essential basic goods such as child care, health care, and transportation in the calculation of the Modern Poverty Measure** – In California, as well as throughout the country, child care costs are consistently one of the highest costs in family budgets. Expensive health care costs, particularly for seniors, and rising gas prices, are also significantly impacting families' budgets.
- **Include multiple family sizes and compositions** – In order to create effective public policy, such as setting client eligibility for social service programs, a measure that includes multiple family types and compositions will most accurately reflect the needs of low-income people.
- **Include localized data** – Due to the wide variation in the cost of goods within states (e.g. the cost of housing for a one-bedroom apartment in California ranges from \$612 per month in Tulare county to \$1,808 per month in Marin county).\*
- **Include data reflecting costs faced by seniors** – The consumption patterns for seniors differs from that of families, especially given the increased need for health care.

It is significant both to recognize the effect of receiving public support on a families' economic security, as the proposed Modern Poverty Measure does, as well as having a measure of the income families need to meet their basic needs *without public or private supports*. The Self-Sufficiency Standard and Elder Economic Security Standard™ Index (Elder Index) provide that measure by calculating the income families and retired seniors need to meet their basic needs by family composition and county of residence. The Self-Sufficiency Standard and Elder Index are powerful tools that policymakers, grant makers, advocates, educational institutions, and service providers around the country are using to develop programs and policies that have and continue to lead low-income people toward economic security. What follows is information about the Self-Sufficiency Standard and Elder Economic Security Standard™ Index and how they are used to effectively address the needs the of working families and retired adults.

The Insight Center is a state partner of the national organization, Washington D.C.-based Wider Opportunities for Women (WOW), as a part of their Family Economic Self-Sufficiency Project (FESS). Our statewide coalition, Californians for Economic Security (CFES), is comprised of a diverse network of over 400 service providers, workforce agencies, educators, advocates, grassroots groups, women's organizations, community colleges and immigrant organizations. The mission of the project is to advance policies and programs that build economic security for families, seniors, and the communities in which they live.

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\*Information based on the United States Department of Housing and Urban Development (HUD) Fair Market Rent and National Low Income Housing Coalition data included in the California Family Economic Self-Sufficiency Standard (2008).

Policy makers and the public are increasingly asking why so many Americans come up short as they struggle to make ends meet. To answer that question and identify strategies to help these families, WOW—in partnership with four organizations including the Insight Center—launched the FESS (Family Economic Self-Sufficiency) Project in the mid 90's. During this period, WOW piloted a new geographically-based measure of economic security, the Self-Sufficiency Standard,<sup>\*</sup> to reflect the true costs of living for working families that is based on today's economic realities. Based on publicly available federal, state, and local data sources including the Department of Housing and Urban Development (HUD) Fair Market Rent and the United States Department of Agriculture (USDA) Low-Cost Food Plan, the Self-Sufficiency Standard is a measure of the income families of different compositions need to meet basic needs such as housing, food, health care, child care, transportation, and other necessary goods in a given county without public or private assistance. The Self-Sufficiency Standard has been developed and is utilized in 35 states and the District of Columbia. It has been drawn on by states and national organizations and think tanks<sup>†</sup> in their efforts to establish a more relevant and credible measure to use in making policy and program decisions.

Recently, WOW and the Gerontology Institute at the University of Massachusetts-Boston developed an income adequacy measure for retired seniors: the Elder Standard™ index<sup>‡</sup>, that will be in computed for the entire country by 2012. Based on this national methodology, the UCLA Center for Health Policy Research, in partnership with the Insight Center, calculated and released the California Elder Economic Security Standard™ Index (Elder Index) this past February. Like the Self-Sufficiency Standard, the Elder Index is a measure of the income retired seniors need to meet basic needs and is based on publicly available federal, state, and local data. The Elder Index also reflects the actual consumption patterns of older adults and is the *only* measure of its kind in the country.

Across America, a growing number of working families and seniors are struggling to stretch their wages and savings to meet rising costs for basic necessities. At the same time, public assistance from federal, state and local resources are dwindling. These trends give new urgency to the question of economic independence beyond the poverty line. Although many of these families and seniors are not poor according to the official poverty measure, their incomes are inadequate to meet the most minimal needs. Today, organizations around the country are using the Self-Sufficiency Standard to help policy makers and individuals answer the question of how to *measure* the circumstances and obstacles facing low-income families trying to become economically self-sufficient.

The Self-Sufficiency Standard provides a conceptual framework as well as real numbers to address a range of policy issues: the kinds of jobs, education, training, work supports, retirement savings, and income assistance needed to make ends meet given the cost of living in particular local economies for different type of family configurations.

The Self-Sufficiency Standard serves as an alternative to the federal poverty level. Currently, the federal poverty level is used to guide a host of federal and state policies and to set eligibility thresholds. And, it has inadvertently and inappropriately been interpreted to define income adequacy. This is damaging for a number of reasons, but perhaps one no greater than that the federal poverty

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<sup>\*</sup> The Self-Sufficiency Standard was developed by Dr. Diana Pearce of the University of Washington who at the time was Director of the Women and Poverty project at WOW.

<sup>†</sup> For instance, the National Center on Children and Poverty has drawn on the Self-Sufficiency Standard in the development of its matrix presented today.

<sup>‡</sup> In the past three years, we partnered with the Gerontology Institute of the University of Massachusetts/Boston to develop the Elder Economic Security Standard™ index that takes account of differences in health and housing status for retired persons aged 65 and over.

level is a flawed measure, based on assumptions about costs and family structure that are completely out of date with the social and economic realities of today's families. For instance, the official poverty measure was developed in 1964 when there were many fewer single heads of household and many fewer mothers who worked outside the home and needed to pay for child care.

### **Why is the Federal Poverty Level (FPL) Inadequate?**

The inability of the official federal poverty measure to give a realistic picture of what it takes to make a living in today's society has been well documented. We are pleased that the Committee held the hearing to draw attention to the subject. The Insight Center is particularly concerned about the following deficiencies inherent in the current federal poverty level (FPL):

The measure:

- Is based on the cost of a single item: food. It does not consider other costs such as housing, child care, transportation, and it uses the false assumption that food represents one-third of a family's budget.
- Is computed nationally, and thus fails to capture the wide range of housing and other cost differentials across the country;
- Uses the implicit demographic model of the two-parent family with a stay-at-home wife. Today, the likely scenario is that both parents are working.
- Does not distinguish between those families in which the adults are employed and those in which the adults are not employed.
- Does not recognize the impact of care giving for children and does not take into account the age of children in a family.
- Assumes that if the family has one adult household member, that member does not work. In 2004, 83.9 percent of single fathers and 72 percent of single mothers were in the labor force.<sup>†</sup>
- Does not vary by seniors' age, health, or life circumstances.

### **The Self-Sufficiency Standard: An Alternative to the FPL**

The Self-Sufficiency Standard measures how much income is needed for a family of a certain composition in a given place to adequately meet its minimal basic needs *without public or private assistance*. The Standard is designed as a national measure, with a specific methodology that is tailored to the costs of each state and county within that state.

The Self-Sufficiency Standard in California:

- Assumes that adults in the household work full-time and, thus, have work-related expenses such as taxes, transportation and child care when children are present.
- Assumes the employer provides employee and dependents' health insurance and uses average premiums and out-of-pocket expenses
- Distinguishes by family size and type. The Standard takes account of differing costs not only by family size and composition (as does the official poverty measure), but also by the ages of children. While food and health care costs are slightly lower for younger children, child care costs can be much higher, particularly for preschool children. The Standard contemplates 70 different family types establishing different categories for infants, preschooler, school-age children and teenagers.

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<sup>\*</sup> The findings of the Self-Sufficiency Standard suggest that, on average, food costs represent between 10 and 19 percent of the budget for one adult, a pre-schooler and an infant—not 33% as the federal poverty line assumes.

<sup>†</sup> Employment Characteristics of Families in 2004, US Bureau of Labor Statistics. Available at:

[http://www.bls.gov/news.release/archives/famee\\_06092005.pdf](http://www.bls.gov/news.release/archives/famee_06092005.pdf).

## **Seven Categories of Expenses**

The Standard measures seven categories of expenses using scholarly and credible federal and state data sources. The Standard does not rely on the cost of a single item, such as food, to establish a ratio against which to calculate the total family budget. The Self-Sufficiency Standard is based on the cost of each basic need by county – food, housing, health care, child care, transportation and taxes – determined independently using publicly available data.

The Self-Sufficiency Standard nets out all taxes, including state and local sales and use taxes, payroll tax, federal, state and local income taxes, along with the Earned Income Tax Credit, Child and Dependent Care Tax Credit and Child Tax Credit. After all taxes and basic needs are accounted for, we add 10 percent for miscellaneous expenses such as clothing, phone, and household goods. These miscellaneous expenses reflect a minimal amount for a bare bones budget that does not take into account entertainment, a vacation or eating out. It does not include funds for one time purchases (e.g. furniture, appliances or a car). The Standard does not build in costs related to savings for a security deposit, down payment, emergencies, retirement, college or debt repayment that can be essential in today's economy.

## **Cost Components of the Self-Sufficiency Standard**

To factor in actual costs, the Self-Sufficiency Standard uses such data as HUD's Fair Market Rent, the USDA Low-Cost Food Plan, and sub-state market rates for child care published by state welfare agencies. Transportation costs are figured using data from state and local transportation departments, the National Association of Insurance Commissioners, the American Automobile Association, and the IRS mileage allowance. Since families cannot be truly self-sufficient without health insurance, employer-sponsored coverage is assumed as the norm for full-time workers. For the family's health insurance premium and out-of-pocket costs, we rely largely on data from the Medical Expenditure Panel Survey (MEPS).

## **The Real Cost of Living in One County:**

For each state, county-by-county tables with 156 different family types show the cost of each basic budget item and the hourly, monthly and annual wage needed to achieve self-sufficiency. On the following page is a table on the following page is for Alameda County, where Representative and Committee on Ways and Means Member Stark serves. In 2008, the State of California Self-Sufficiency Standard was \$58,854 for a family of one parent, one infant and one preschooler, **more than triple** the official poverty threshold of \$17,600 for the same family.

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\* A complete discussion of data sources and methodology for the Self-Sufficiency Standard can be found on WOW's Website at: <http://www.sixstrategies.org/includes/productlistinclude.cfm?strProductType=resource&searchType=type&strType=self-sufficiency%20standard> and clicking the report for any state.

**California Family Economic Self-Sufficiency Standard for Four Family Types (2008)  
Alameda County, California**

<b>Monthly Costs</b>	<b>One Adult</b>	<b>One Adult &amp; One Pre-Schooler</b>	<b>One Adult, One Preschooler &amp; One School Age Child</b>	<b>Two Adults &amp; One Preschooler &amp; One School Age Child</b>
<b>Housing</b>	1027	1216	1216	1216
<b>Child Care</b>	0	859	1283	1283
<b>Food</b>	290	438	656	903
<b>Transportation</b>	116	116	116	232
<b>Health Care</b>	104	258	270	333
<b>Miscellaneous</b>	154	289	390	397
<b>Taxes</b>	363	622	899	757
<b>Earned Income Tax Credit (-)</b>	0	0	0	0
<b>Child Care Tax Credit (-)</b>	0	(50)	(100)	(100)
<b>Child Tax Credit (-)</b>	0	(83)	(167)	(167)
<b>Self-Sufficiency Wage - Hourly</b>	<b>\$11.66</b>	<b>\$20.82</b>	<b>\$24.83</b>	<b>\$13.79 (per adult)</b>
<b>-Monthly</b>	<b>\$2,052</b>	<b>\$3,664</b>	<b>\$4,370</b>	<b>\$4,854</b>
<b>-Annual</b>	<b>\$23,240</b>	<b>\$43,974</b>	<b>\$52,442</b>	<b>\$58,251</b>

## **Coming Up Short**

The Self-Sufficiency Standard helps illustrate the critical nature of federal programs under the jurisdiction of this committee, and others, as work supports – publicly funded income support and services that help fill the gap between a low wages and a level of self-sufficiency. In an examination of work supports in ten communities for a parent, one infant and one preschooler,<sup>\*</sup> WOW found that the wages of people leaving welfare covered only 30 percent of the Self-Sufficiency Standard. A minimum wage job at \$5.15 per hour brought the level to 34 percent. Even the recent increase in the minimum wage to \$5.85 will not bridge the gap with the skyrocketing costs of gasoline and food. On average across the communities, a single parent would have to work three full time minimum wage jobs at a time to meet his/her family’s minimal basic needs.

## **Uses of the Self-Sufficiency Standard as an Alternative to the FPL**

Today, more than 2,000 local and state agencies and a variety of organizations are part of WOW’s national Family Economic Self-Sufficiency and Elder Economic Security Initiative (EESI) networks. FESS and EESI partners include elected officials, workforce development boards, women’s commissions, community action agencies, child and senior advocates, job training programs, welfare rights groups, and state fiscal policy organizations. They use the Self-Sufficiency Standard and Elder Index frameworks to design, conduct, and advocate for programs and policies that move low-income families and seniors toward economic independence.

## **California: Legislation and Implementation**

In California and in many other states across the country, we have found that our state-specific Self-Sufficiency Standard is an invaluable tool because of the county specific nature of the information. Over the past decade, Californians for Family Economic Self-Sufficiency has worked to institutionalize the Self-Sufficiency Standard in public policies, administrative actions and programs across the state and across a variety of issue areas. Our efforts have resulted in the following policy and programmatic initiatives, among others.

- **Use of Self-Sufficiency Standard in State and Local Legislative Action**

In 2003, Californians for Family Economic Self-Sufficiency worked with leaders in the California State legislature to pass Senate Joint Resolution 15. This resolution urges the President and the Congress to begin a process to better calculate the federal poverty level, and to use a self-sufficiency index to calculate poverty, including geographical costs of living.

In 2004, the San Francisco Board of Supervisors passed a resolution making family economic self-sufficiency a goal for the City.

In 2008, Los Angeles City Councilmember Richard Alarcón introduced a motion calling for the development of a “self-sufficiency index” for the City of Los Angeles to reflect the regional cost of living, including health care, food, housing, child care, transportation and other basic necessities.

- **Use of Self-Sufficiency Standard by Workforce Investment Boards**

At the local level, we have partnered with the Workforce Investment Boards of Sacramento, Long Beach, Pasadena, San Francisco, Santa Cruz, Contra Costa, Mendocino, San

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<sup>\*</sup> *Coming Up Short: A Comparison of Wages and Work Supports in 10 American Communities*, Wider Opportunities for Women, 2006, <http://wowonline.org/docs/dynamic-CTTA-43.pdf>.

Bernardino, and Oakland to expand their eligibility criteria for receiving intensive case management and training services, so that their eligibility income levels are closer to the Self-Sufficiency Standard. By using a percentage of the Self-Sufficiency measure, these Workforce Investment Boards allow low-wage workers to access training; they also help their clients to set family-sustaining goals and to understand the impact of their education and training decisions.

Local Workforce Investment Boards also use the Self-Sufficiency Standard as a planning tool in policy and programmatic decisions. For example, the Self-Sufficiency Standard has helped the Sacramento Employment and Training Agency (SETA) and the San Bernardino Workforce Investment Boards to determine which industries with good wages are growing in their regions. They are then able to direct their clients and public resources toward those industries.

- **Use of the Self-Sufficiency Standard in Policies and Programs to Help Clients Move Toward Economic Security**

United Way of the Bay Area has adopted the Self-Sufficiency Standard as a tool to prioritize and measure the effectiveness of its own funding strategies. One group of their grantees was asked to track client progress toward self-sufficiency, as well as other services, and training being provided. With this information, they were able to analyze which programs were most effective at moving families out of poverty.

Chabot Community College in Hayward and Berkeley City College use the Self-Sufficiency Standard with students who are receiving TANF to help them find works supports while in school and to measure progress their students' towards self-sufficiency over time.

Opportunity Junction (formerly OPTIC) – a non-profit organization which provides training programs for occupations in the IT industry for low-income workers – uses the Self-Sufficiency Standard as a benchmarking tool with their in-coming students to determine how close their students are to self-sufficiency before and after participating in the agency's job training and placement program.

Lastly, Mission Hiring Hall in San Francisco has incorporated the Self-Sufficiency Standard into a program funded by the San Francisco Mayor's Office of Community Development, which combines family support and employment training to serve an entire family, not just the jobseeker.

All of these examples illustrate how an alternative, more realistic cost of living index enables policymakers, agency directors, and program operators focus their efforts and resources toward moving families out of poverty and toward economic self-sufficiency.

### **Developing a Measure of Income Adequacy for Seniors**

The Elder Economic Security Standard™ index, piloted in Massachusetts in 2006, uses similar data as the Family Economic Self-Sufficiency Standard. It differentiates, however, among individuals and couples who own their homes free and clear, those who rent and those who still hold mortgages. It also differentiates by health status – poor, good, and excellent. Included are premium and co-pay costs for Medicare Parts B, C and D and median out-of-pocket costs from the Medical Expenditure Panel Survey. Costs of home- and community-based long-term care are also included in the Elder Standard™ index. Elder Standard™ indices for California, Illinois, Massachusetts, Pennsylvania, and Wisconsin were released this year, and will be calculated for the rest of the country by 2012.

Like policies and programs for working families, much of current policy and program design for

low-income elders is based upon federal poverty thresholds. In the case of seniors, the threshold is even lower than that designed for working families because the U.S. Department of Agriculture calculations assume that older adults have lower caloric requirements than younger adults. As a result, the official U.S. poverty thresholds are lower for adults 65 and older than for younger adults.\*

The Elder Standard™ index uses cost data from public federal and state sources that are comparable, geographically specific, easily accessible, and widely accepted. In areas where existing public data sources are not currently available, such as long-term care costs, we use a consistent methodology to derive comparable measures for costs.

The Elder Standard™ index:

- Measures basic living expenses for seniors (aged 65 and older) in the community (not in institutions, such as skilled nursing facilities or assisted living facilities).
- Measures costs for senior households to live independently (vs. living in intergenerational households).
- Includes Medicare because seniors qualify for and receive it based on age, not income eligibility, making it nearly a universal program.
- Models costs for retired elders, who no longer face costs of working, such as payroll taxes and commuting to work.

The Elder Standard™ index, just like the Family Economic Self-Sufficiency Standard, measures costs in today's marketplace. Economic security implies that seniors can meet their basic needs without income-eligible public subsidies, such as food stamps, subsidized housing, Medicaid, or property tax help.

With 3.5 million people over the age of 65, California has the largest older adult population in the nation, and this population is expected to grow by 172% over the next 40 years. The California Elder Economic Security Initiative—a diverse network of public agencies, health and aging research centers, senior service providers, legislators, and advocacy groups and foundations managed by the National Economic Development and Law Center – plans to use the Elder Standard™ index to help this burgeoning population age in place with dignity.

Specifically, the Elder Standard™ index will help our statewide coalition to:

- Provide important new information to illustrate the basic costs seniors face and how their financial security is affected when their life circumstances change
- Serve as an educational and advocacy tool for elders, their children and caregivers, as well as for people nearing retirement
- Provide a foundation for developing a state policy agenda and a platform for engaging in national advocacy
- Provide a framework for analyzing the impacts of local, state, and federal public policies and policy proposals
- Serve as a financial counseling tool for those working with elders in need of income supports and additional skill sets, and

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\* The poverty guidelines are a second version of the federal poverty measure. Issued each year in the Federal Register by the Department of Health and Human Services, they are a simplification of the poverty thresholds for administrative uses, such as determining eligibility for certain federal programs. The federal poverty guidelines for 2008 are \$10,400 for one-person households and \$14,000 for two-person households. They are the same in 48 states and adjusted for living costs only in Alaska and Hawaii.

- Enable service providers, foundations, and public agencies evaluate the impact of their programs and services for seniors.

Already, some local Area Agencies on Aging intend to use the California Elder Standard in their own strategic area plans as they prepare for the needs of retiring baby boomers in their local communities

The table below illustrates the Elder Standard™ index using the U.S. cost data for four selected elder household types in good health: an individual elder homeowner who owns a home without a mortgage, an elder tenant in a market rate apartment, an elder couple who own their home without a mortgage, and an elder couple in a market rate apartment.

**The California Elder Economic Security Standard™ Index, Alameda County (2008)  
Monthly Expenses for Selected Household Types**

Monthly Expenses/Monthly and Yearly Totals	Elder Person		Elder Couple	
	Owner w/o Mortgage	Fair Market Rent 1BR	Owner w/o Mortgage	Fair Market Rent 1BR
Housing	\$ 426	\$ 1,055	\$ 426	\$ 1,055
Food	\$ 302	\$ 302	\$ 557	\$ 557
Transportation (Private Auto)	\$ 202	\$ 202	\$ 323	\$ 323
Health Care (Good Health)	\$ 293	\$ 293	\$ 586	\$ 586
Miscellaneous @ 20 percent	\$ 244	\$ 244	\$ 378	\$ 378
<b>Elder Standard Per Month</b>	<b>\$ 1,467</b>	<b>\$ 2,096</b>	<b>\$ 2,270</b>	<b>\$ 2,899</b>
<b>Elder Standard Per Year</b>	<b>\$ 17,602</b>	<b>\$ 25,153</b>	<b>\$ 27,237</b>	<b>\$ 34,788</b>

According to the Elder Standard™ index, a single elder homeowner without a mortgage and in good health needs at least \$17,602 per year in Alameda County just to meet basic expenses. Three out of ten retired elders rely solely on Social Security. For this group of seniors, the average annual Social Security payment (\$12,642 in 2007) provides only 72 percent of what a one-person elder homeowner without a mortgage needs and only 50 percent of the income needed by an elder renter (\$25,153). Economic security is even further out of reach for women as 46 percent of all elderly women relied on Social Security for more than 90 percent of their income in 2004. With a federal poverty level of \$10,400, many elders do not qualify for important low-income supports which could assist in close the income gap illustrated by the Elder Standard™ index.

Long-term care costs can nearly equal or more than double the costs of all other components in the Elder Standard™ index, leading to a severe financial impact on elders' budgets.

**Conclusion**

Particularly in high cost states like California, thousands of low-wage workers and retired seniors have incomes too high to qualify for benefits based on the federal poverty line; yet their wages or retirement income are too low to cover basic necessities for themselves and their children.

We salute Congressman McDermott for taking on the challenge of raising the issue of the inadequacy of the current federal poverty level. As a country, we can not shy away from facing the facts of what it costs to live in the United States today. Although, in the short run, some will find it uncomfortable to acknowledge that more people are struggling to meet their daily costs of living, in the long term a new measure will lay the basis of sound policy and program development for the future. The incorporation of the Self-Sufficiency Standard in a wide range of policy, program, and direct service implementation in a critical mass of states, including California, reflects the fact that states and local governments are succeeding in using an alternative to the federal measure.

Section 1150B of Congressman McDermott's bill includes many of the basic principles used in both the Self-Sufficiency Standard and Elder Index. We encourage the federal government to develop both a tool and a framework to guide federal policy that reflects a higher, more accurate measure of economic security at all stages of life, for multiple family sizes and compositions, and also for geographic regions across the nation.

We stand ready with Wider Opportunities for Women and the Family Economic Self-Sufficiency (FESS) and Elder Economic Security Standard™ Index state partners to work with you to develop such a measure.