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**Part I. Economic Well-Being: Some Old and New Ground**

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## Chapter 1. Current Income and a Traditional Poverty Measure

**Why Income?** Attempts to assess well-being in the United States often focus on income and the closely related concept of poverty. Income and poverty statistics have been used to identify who is "well off" and who is not. Income, it is generally believed, is an indicator of the economic resources available to people. And, it is also believed, those economic resources largely determine how well off people are: people with higher incomes are, in some sense, better off than those with lower incomes. While there is much debate over where to place the poverty line, most believe that people with incomes below the poverty line have a more difficult time living at a minimally acceptable level than those with incomes above the poverty line.

**The CPS Model.** The Census Bureau's annual estimates of income and poverty are based on data from the March Income Supplement to the Current Population Survey (CPS). In March of each year, Census Bureau field representatives visit approximately 60,000 households throughout the United States. These interviewers ascertain who is living in the household as of the date of their visit. They then inquire about the income of each of those household members during the prior calendar year. Family incomes are determined by adding together the incomes of all family members. A person's poverty status is determined by comparing that measure of family income to the official poverty threshold for the type of family they lived in at the time of their interview.<sup>1</sup>

For the purposes of this report, there are four aspects of this process which are important to note. First, CPS family composition is determined only at the time of the March interview. This does not always represent the composition of the family that a person was living in during all (or even part) of the prior calendar year. Since family composition can change over the course of the year,<sup>2</sup> the income information gathered in March may not be representative of the income resources available during the prior calendar year.

<sup>1</sup>The poverty status of "unrelated individuals" (persons either living alone or with others to whom they are not related) is determined by comparing their reported income to a poverty threshold for a single person.

<sup>2</sup>In 1984, 22.6 percent of the population lived in a household that changed size at some point during the year. This is an underestimate of the amount of change in household composition which actually takes place since membership can change without changing household size. See Donald Hernandez, *Components of Longitudinal Household Change For 1984-85: An Evaluation of National Estimates From SIPP*, SIPP Working Paper No. 8922, November 1989, for a more detailed discussion.

Second, the March supplement of the CPS asks about income during the prior calendar year. If the prior calendar year was an unusually good or bad year for the person's family in terms of income, an assessment of that person's economic resources in terms of their family income for that year may be misleading.<sup>3</sup> Furthermore, the family incomes of many people fluctuate during the course of the year. Asking about the family's total annual income may fail to identify periods during the year when a person and their family were substantially better or worse off in terms of income than the annual figure indicates.<sup>4</sup>

Third, traditional income and poverty statistics are based on *family* income. To the extent that unrelated people who live together (such as cohabitating persons) pool their resources, considering them as separate economic units may underestimate the income resources available to them.<sup>5</sup>

And fourth, traditional income and official poverty statistics are based on the flow of money that a family receives during a year. The statistics take no account of accumulated assets except to the extent that interest from those assets constitute a source of income. Additionally, noncash income that a family receives is not included at all. Many people receive noncash income from their jobs in

<sup>3</sup>See U.S. Bureau of the Census, Current Population Reports, Series P-70, No. 15- RD-1, *Transitions in Income and Poverty Status: 1984-85*, U.S. Government Printing Office, Washington, DC, 1989. For more recent estimates, see U.S. Bureau of the Census, Current Population Reports, Series P-70, No. 18, *Transitions in Income and Poverty Status: 1985-86*, U.S. Government Printing Office, Washington, DC, 1990, and No. 24, *Transitions in Income and Poverty Status: 1987-88*, U.S. Government Printing Office, Washington, DC, 1991.

<sup>4</sup>See Patricia Ruggles and Robertson Williams, "Longitudinal Measures of Poverty: Accounting For Income And Assets Over Time," *Review of Income and Wealth*, Series 35, No. 3, September 1989.

<sup>5</sup>Data from the Bureau of Labor Statistics' Consumer Expenditure Survey indicate that roughly 96 percent of the households in their sample universe are composed of single consumer units. A consumer unit in the Consumer Expenditure Survey comprises either: (1) all members of a particular household who are related by blood, marriage, adoption, or other legal arrangements; (2) a person living alone or sharing a household with others or living as a roomer in a private home or lodging house or in permanent living quarters in a hotel or motel, but who is financially independent; or (3) two persons or more living together who pool their income to make joint expenditure decisions. Financial independence is determined by three major expense categories: housing, food, and other living expenses. To be considered financially independent, at least two of the three major expense categories have to be provided by the respondent.

the form of fringe benefits. Many also receive noncash transfers from the government in the form of social program benefits, such as Medicare or Food Stamps.<sup>6</sup>

**Income and Poverty Measurement in SIPP.** Data in the Survey of Income and Program Participation (SIPP) allow us to address each of these issues. In SIPP, household composition is identified on a monthly basis. Income from each person (age 15 or older) is also measured for each month they are in the sample.<sup>7</sup> Using this additional information allows the computation of an income measure that takes account of the month-to-month fluctuations in household composition and income. An annual household income figure was assigned to each person by multiplying their average monthly household income by 12.<sup>8</sup> This measure of 1984 household income takes account of changing household composition during the year. It is also a household rather than a family-based measure.

Poverty thresholds in this report also differ from those used in the official statistics. Since the income concept in this report is based on household rather than family membership, poverty thresholds are similarly based. Furthermore, since household composition varies over the year, the poverty thresholds used here take account of those variations.

#### **Economic Well-Being in the 1984 SIPP: Annual Income.**

There are several summary statistics which can be used to describe where people stand relative to one another in terms of annual income. One method is to use the mean (or average) income.<sup>9</sup>

Figure 1-1 shows mean household income by sex of the householder,<sup>10</sup> and the age and race of the person. The

<sup>6</sup>U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 169-RD, *op.cit.*

<sup>7</sup>People in SIPP are interviewed once every 4 months for the life of the panel. The 1984 SIPP ran for 32 months in total. At each interview they were asked about their income for each of the prior 4 months.

<sup>8</sup>For most people, this is the sum of the 12 monthly incomes for each of the households they lived in during 1984. A small number of people were a part of the SIPP sample for less than 12 months. These people were born during 1984, died during 1984, or moved into institutions or overseas during the year. For those people, it was assumed that their household incomes for the months they were in the sample were typical of what would have been found for the months when they were not in the sample. As chapter 2 will show, there are good reasons to question this assumption. However, the number of cases involved is small (658 cases, accounting for just 1.6 percent of the total calendar year sample of 40,445 cases, were affected). Other approaches are unlikely to result in substantively different conclusions.

<sup>9</sup>Generally, medians as well as means are provided when reporting income distributions. Medians are preferable to means when the distribution is highly skewed, as is the case with income distributions, because medians are not affected by outliers. This report presents only means. Since very large income amounts were suppressed, the effect of outliers is somewhat diminished in the estimates presented here.

<sup>10</sup>Survey procedures call for listing the person (or persons) in whose name the home is owned or rented as of the interview date. If the home is owned or rented jointly by a couple, either the man or the woman may be listed first, thereby becoming the householder.

patterns are all familiar: People between the ages of 18 and 64 reported the highest average household incomes. Children (those under age 18) lived in households with lower average incomes and the elderly (those 65 and over) reported the lowest average household incomes by far. In general, comparisons using current income suggest that the young and old are less well off than those in the middle age groups.

The data also show that those living with a male householder enjoyed substantially higher average household incomes than those living with female householders. There are many explanations for this pattern. One explanation is that, on average, women have lower-paying jobs than men. Another explanation is that households with male householders are more likely than those with female householders to have two adult earners present. A full 90 percent of persons classified here as living with male householders live in married-couple spouse-present households. Only 20 percent of persons classified as living with female householders are in married-couple spouse-present households. The vast majority of people living with female householders, 80 percent, live in single-parent households or are unrelated individuals. Results presented by gender of householder are, therefore, also a reflection of the composition of the household (see detailed tables for estimates by household type).

Finally, the data indicate that Blacks lived in households with substantially lower average incomes than Whites in 1984. Explanations for this pattern range from those which consider differences in household composition among Whites and Blacks, to those which consider differences in jobs and wages which Whites and Blacks typically experience.

Mean income tells us something about the average experience of a person in the group we are studying. By itself, however, it does not tell us anything about the overall distribution of experiences.<sup>11</sup> One way to characterize relative economic standing is to estimate the probability of living in a household in the bottom 20 percent of the national household income distribution. Figure 1-2 displays those estimates. The patterns are consistent with those in figure 1-1.

**Economic Well-Being in the 1984 SIPP: Household Poverty.** All else equal, most would agree that larger families need more money than smaller ones to enjoy the same level of economic well-being. Measuring family income without taking account of differences in family size and composition may therefore yield misleading results about

<sup>11</sup>A hypothetical example may help illustrate the point. Imagine two groups of people. People in the first group have an average annual income of \$20,000, while people in the second group have an average annual income of \$30,000. Using mean annual income, these figures would lead us to conclude that people in the second group are better off than those in the first group. However, if the incomes of people in group one are more equally distributed than those of group two, it is possible that people in group one are *less* likely than group two people to have annual incomes below \$5,000.

Figure 1-1.  
**Mean Household Income of Persons by Sex of Householder,  
 Age and Race of Persons: 1984**

(In thousands of dollars)

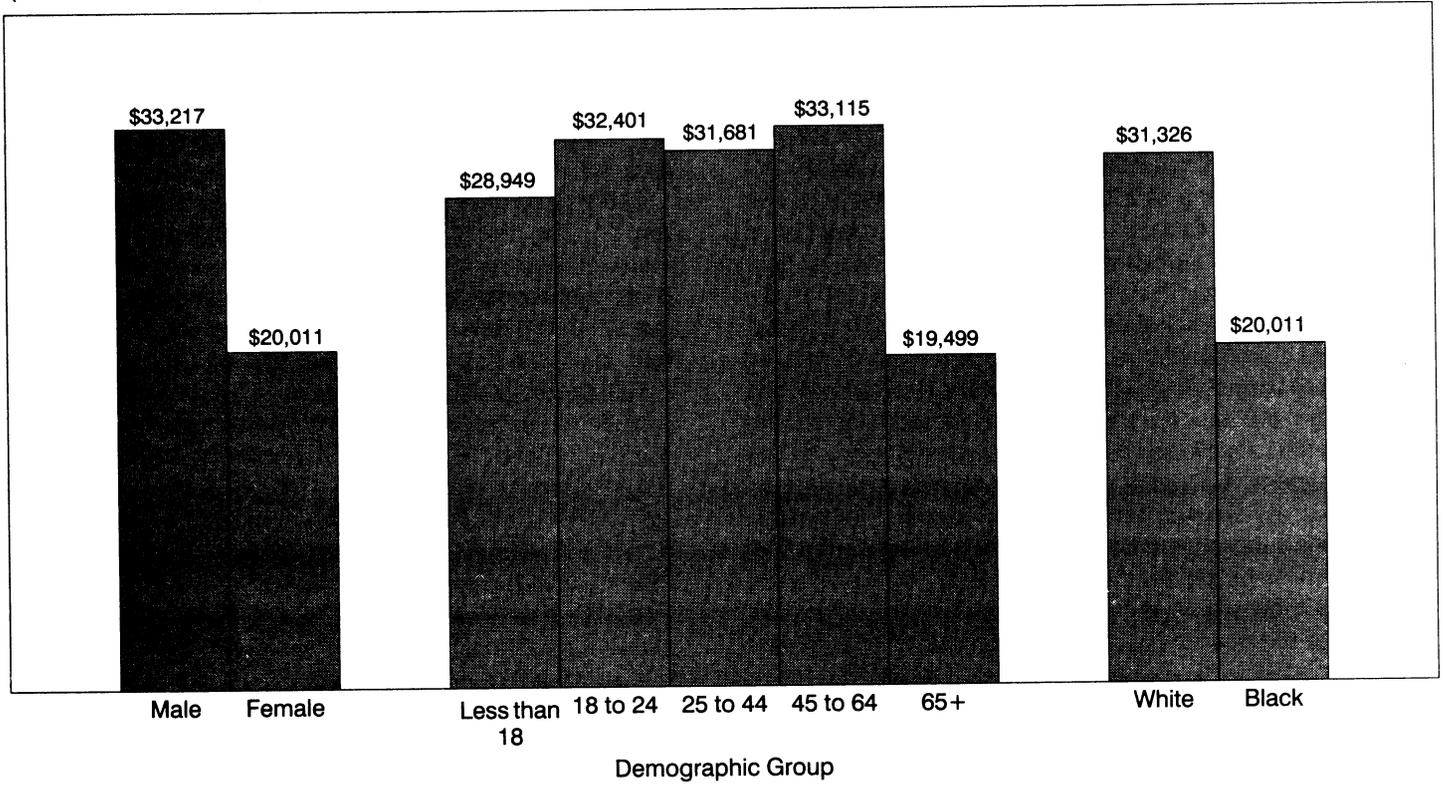
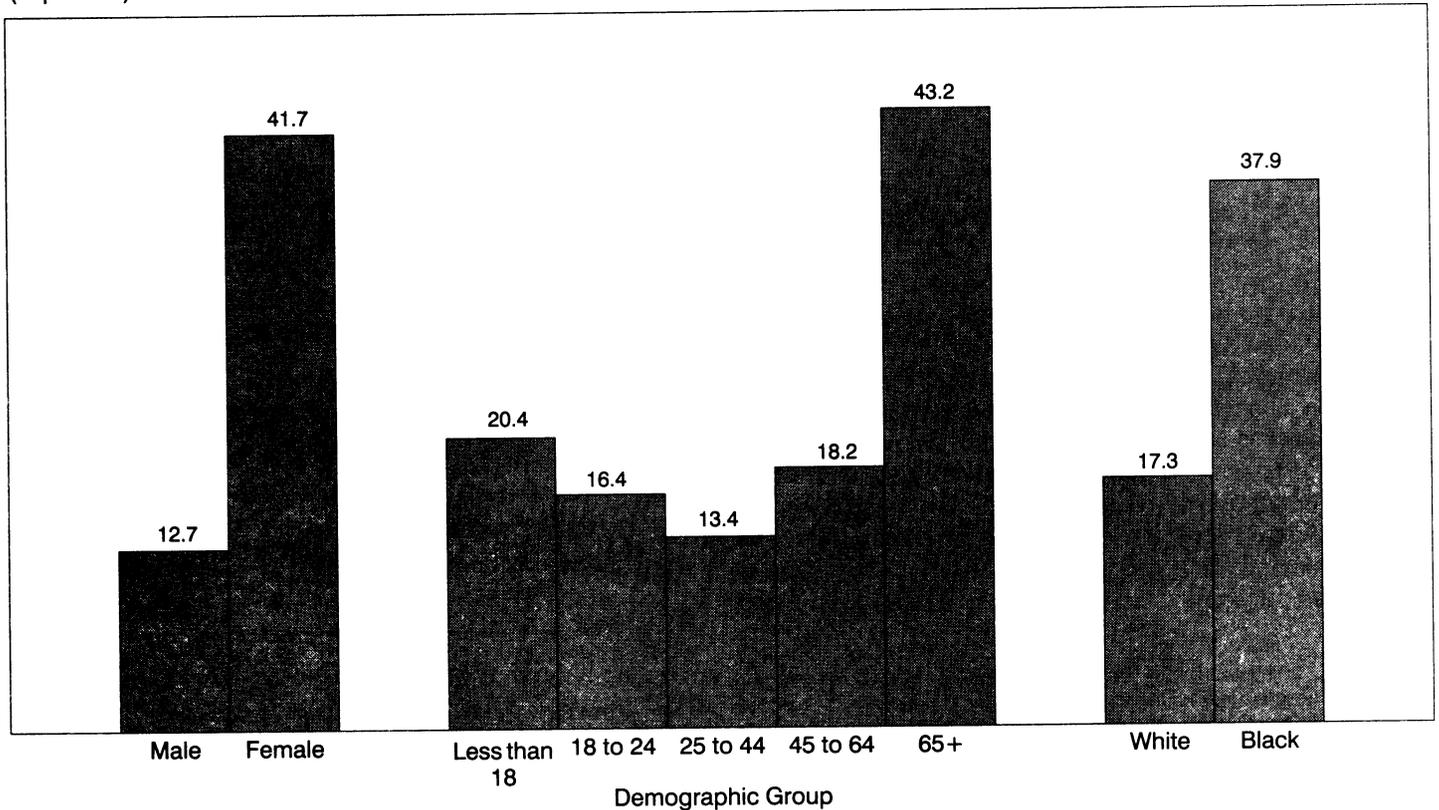


Figure 1-2.  
**Persons in Bottom Household Income Quintile  
 by Sex of Householder, Age and Race of Persons: 1984**

(In percent)



the relative economic well-being of people. One common way to take account of the different needs faced by families of different sizes and compositions is by comparing current family income to the poverty threshold for that family. The official poverty thresholds incorporate some measures of family need, taking account of the number and age of persons in the family. People can be categorized according to the amount of current income relative to the poverty line for a family of the type they live in. If this income-to-poverty ratio is less than one, then a person is officially classified as being in poverty.<sup>12</sup>

Using households rather than families, poverty thresholds were calculated for each person and then compared to reported household incomes. Table 1-A shows the percentage of persons who reported household income below various multiples of the poverty line in 1984 by the age of the person. The data generally indicate that persons 65 years or over were the least likely to report extremely low adjusted incomes (household incomes less than half the poverty line). Generally, people 45 to 64 years were less likely than others to have incomes below every other multiple of the poverty line.<sup>13</sup> Thus, people 45 to 64 years

**Table 1-A. Cumulative Poverty Distribution by Age: 1984**

Household income-to-poverty ratio	Percentage of persons reporting household incomes less than ratio					
	All ages	Less than 18 years	18 to 24 years	25 to 44 years	45 to 64 years	65 years and over
Less than:						
0.50 .....	3.3	6.2	2.8	2.5	1.9	0.7
1.00 .....	11.1	17.6	9.8	8.3	7.3	10.7
2.00 .....	32.0	42.9	28.9	26.0	23.1	40.0
3.00 .....	55.1	68.2	50.9	50.1	41.9	63.9
4.00 .....	72.5	83.8	70.7	69.0	59.1	79.8
5.00 .....	83.3	91.4	83.0	81.0	73.4	87.4

appeared to be better off. People under age 18 appeared to be the least well off.

This pattern is somewhat different from that suggested by figures 1-1 and 1-2. Those data showed the elderly to be worse off than those under age 18. Now, after taking account of household composition, the data indicate that persons under age 18 were worse off than those 65 years old and over. The difference in the patterns is a reflection of two things. First, children tend to live in larger households than the elderly. Income-to-poverty ratios take some

<sup>12</sup>See U.S. Bureau of the Census, Series P-70, No. 18, *op. cit.*, for another application of income-to-poverty ratios.

<sup>13</sup>All differences between people 45 to 64 years and other age groups were statistically significant except: age 18 to 24 years with incomes less than 0.5 times the poverty line, age 25 to 44 years with incomes less than 0.5 times the poverty line, and age 25 to 44 years with incomes less than the poverty line.

account of the greater needs of larger households relative to the needs of smaller households. Second, the poverty line for those living with elderly householders in one- or two-person households is lower than for those living with nonelderly householders. Using the same poverty threshold for those living with elderly householders would increase the number of elderly living in households which report incomes below every multiple of the poverty line.

Table 1-B shows the percentage of persons who reported household incomes below various multiples of the poverty line by the sex of the household reference person. Those living in households with a female householder were more likely than those with a male householder to report household incomes below every multiple of the poverty line. Those living in households with a female householder were 5.7 times as likely as those with a male householder to have household incomes less than half of the poverty

**Table 1-B. 1984 Cumulative Poverty Distribution by Sex of Householder: 1984**

Household income-to-poverty ratio	Percentage of persons reporting household incomes less than ratio	
	Male	Female
Less than:		
0.50 .....	1.5	8.6
1.00 .....	6.8	24.1
2.00 .....	25.6	51.3
3.00 .....	49.8	71.3
4.00 .....	68.9	83.8
5.00 .....	80.9	90.7

line, and they were 3.5 times as likely to have household incomes less than the poverty line.

Table 1-C shows the percentage of persons reporting household incomes below various multiples of the poverty line by the race of the person. The story here is also well known. Blacks were five times more likely than Whites to have household incomes less than half the poverty line, 3.6 times as likely as Whites to report household incomes

**Table 1-C. 1984 Cumulative Poverty Distribution by Race of Householder: 1984**

Household income-to-poverty ratio	Percentage of persons reporting household incomes less than ratio	
	White	Black
Less than:		
0.50 .....	2.2	10.9
1.00 .....	8.2	29.7
2.00 .....	27.7	60.2
3.00 .....	51.3	80.1
4.00 .....	69.9	89.9
5.00 .....	81.4	95.5

less than the poverty line, and more likely to report incomes below every other multiple of the poverty line.

#### **Who Appears To Be Economically Disadvantaged?**

Results have been presented using two traditional measures of economic well-being: household income and household poverty. The SIPP data corroborate patterns which have been well established in other data. If these measures are used as indicators of economic well-being, the following conclusions are reached:

- Those between the ages of 18 and 64 appeared to enjoy a higher level of economic well-being than persons in older or younger age groups. They reported higher average household incomes than those older and younger, and they were less likely to have household incomes in the bottom quintile. Comparisons of the elderly and children offer ambiguous results. When differences in household size are not taken into account, the elderly appeared to be worse off than children: they had lower average household incomes and they were more likely to have incomes in the bottom quintile. However, when

differences in household size are taken into account, children appeared to be worse off than the elderly: they appeared more likely to have household incomes less than every multiple of the poverty line.

- Those living with male householders appeared to be better off than those living with female householders. This difference holds across the various ways used to measure household income in this chapter.
- Whites appeared to be better off than Blacks. This difference also holds across the various ways household income was measured in this chapter.

These are some of the conclusions which are drawn if household income and poverty measures only are used as indicators of economic well-being. Two questions then arise. First, how well do these indicators measure the economic resources available to household members? Second, how reliable are they as indicators of living conditions? The next chapter begins to grapple with the first of these questions.

## Chapter 2. Short Term Income Fluctuations and Monthly Poverty

How stable are household incomes from month to month? The use of an annual accounting period for income measures may not always be the best characterization of a household's level of available income. If household income were stable over the year, annual measures would tell everything one needs to know about income for that year. But household income may fluctuate from month to month. The larger the fluctuations, the more difficult it is to generalize about the level of resources available to a household at any point in time during that year from annual income. Furthermore, to the extent that large income fluctuations are unpredictable, they may constitute hardships in themselves. This is especially true for those with low annual incomes and no other economic resources (e.g., savings or credit) to draw on. This chapter contains a more detailed consideration of these issues.

**Measuring Monthly Income Fluctuations.** There are many reasons that reported household incomes may fluctuate from month to month. As household composition changes from month to month, the number of earners in a household may change and this should be reflected in changes in monthly income reports. Household income may also change with changes in the employment status of household members. Additionally, many forms of income are not received on a regular monthly schedule.<sup>1</sup> Finally, if respondents make errors in their income reports in some months but give correct information in other months, their incomes will appear to change even when their actual incomes have been stable.

Many of the apparent changes in monthly income observed in SIPP are rather small. These small changes (whether real or the result of reporting errors) are unlikely to alter conclusions about the relative well-being of people drawn from annual income figures. This report therefore focuses on relatively large monthly income changes: increases of more than 50 percent, and decreases of more than one-third.<sup>2</sup>

<sup>1</sup>This is most common among those who receive paychecks every 2 weeks. While these people generally receive two paychecks each month, there are two months in every year when they receive three paychecks. In the months when three paychecks are received, large month-to-month income changes will be observed.

<sup>2</sup>The same dollar change results in different percentage changes depending on the base used for measuring the change. A household with an income in month one of \$750 and an income in month two of \$500 would have a drop of \$250, or 1/3 of \$750. If that same household has an income in month three of \$750 we would measure a change, again, of \$250, but now it represents a 50-percent increase over \$500.

**The Distribution of Income Instability.** Overall, 50.7 percent of all persons lived in households which experienced at least one large monthly income change in 1984 (table 2-A). This is a strikingly large portion of people experiencing relatively large monthly income fluctuations. Overall, persons in the bottom two household income deciles, though not different from one another, were more likely to experience a large change in monthly income than persons in the top household income quintile. The data also suggest that, generally, at any given income level, people were about equally likely to experience a large decrease and a large increase in monthly income.<sup>3</sup>

**Table 2-A. Persons Experiencing One or More Large Monthly Household Income Changes in 1984 by Annual Household Income Group**

(In percent)

Income change	Household Income Group						
	ALL	1st decile	2nd decile	2nd quin-tile	3rd quin-tile	4th quin-tile	5th quin-tile
Household income change . . . . .	50.7	53.1	56.1	55.9	51.7	46.7	44.8
Household income decreases greater than than one-third . . . . .	37.9	42.0	42.8	41.7	37.8	34.4	33.4
Household income increases greater than one-half . . . . .	39.5	44.1	47.9	43.9	39.0	34.7	34.0

Table 2-B shows that, with the exception of those in the bottom two income deciles, those living with female householders experienced slightly more monthly income instability than those living with male householders. This may

<sup>3</sup>The difference between rises and falls for those with incomes in the second decile was statistically significant, but the difference was not large. Overall, 50.7 percent of all persons had at least one large income change in 1984. Specifically, 37.9 percent had a large decrease and 39.5 percent had a large increase. These data indicate that 26.7 percent of all persons experienced both rises and falls in monthly income, 11.2 percent experienced only rises, and 12.8 percent experienced only declines. These numbers pertain only to the 1984 calendar year. Some of those who appeared to have a rise or fall in monthly income without an offsetting change in an adjacent month may well have experienced such a change between December 1983 and January 1984 or between December 1984 and January 1985. Such fluctuations would not be included in this study.

be due in part to a greater reliance on the earnings of a single wage earner in households with a female householder.

**Table 2-B. Persons Experiencing One or More Large Monthly Household Income Changes in 1984 by Sex of Householder**

(In percent)

Household Income Group	Sex of householder	
	Female	Male
All.....	53.6	49.8
1st decile .....	46.7	63.8
2nd decile .....	56.7	55.7
2nd quintile.....	58.9	54.7
3rd quintile .....	55.4	50.8
4th quintile .....	52.9	45.7
5th quintile .....	52.3	43.9

While Blacks were slightly more likely than Whites to experience large month-to-month income changes in 1984, there was no clear pattern across household income groups (table 2-C).

**Table 2-C. Persons Experiencing One or More Large Monthly Household Income Changes in 1984 by Race**

(In percent)

Household income group	Black	White
All.....	55.6	50.1
1st decile .....	55.3	52.1
2nd decile .....	66.4	53.9
2nd quintile.....	61.1	55.1
3rd quintile .....	49.6	51.9
4th quintile .....	52.3	46.4
5th quintile .....	36.3	45.6

One notable pattern in household income instability is tied to the age of the person (table 2-D). At low income levels, elderly persons, those age 65 years and over, were much less likely than others to experience one or more large changes in monthly income. The elderly rely much less heavily on income from wages and salaries than others. They are also more likely than others to rely on very stable forms of income, such as Social Security payments and income from retirement and pension plans. Elderly persons reporting higher incomes also rely more heavily on income from stocks and other private investments which pay relatively large amounts only once or twice a year, and so they appear to have household incomes with stability similar to younger people reporting incomes in the top quintile.

**Measuring Monthly Poverty.** The official poverty statistics published each year by the Census Bureau are based

**Table 2-D. Persons Experiencing One or More Large Monthly Household Income Changes in 1984 by Age**

(In percent)

Household income group	Age of person				
	Less than 18 years	18 to 24 years	25 to 44 years	45 to 64 years	65 years and over
All.....	54.3	60.7	53.2	47.7	29.0
1st decile.....	65.1	78.6	69.3	53.0	18.7
2nd decile .....	65.8	73.4	65.5	56.6	24.9
2nd quintile.....	61.6	69.1	60.2	52.8	28.3
3rd quintile.....	52.7	62.8	52.5	47.7	35.0
4th quintile.....	46.7	56.5	46.7	42.3	41.1
5th quintile.....	44.2	44.6	46.1	43.4	47.7

on data collected in the March Income Supplement to the Current Population Survey. The questions about income in that survey refer to the prior calendar year. If people live in households with incomes which fluctuate sharply from month to month, it is possible for households to be above the poverty line for the year as a whole but to have 1 or more months during the year with incomes below the poverty line. For households with generally low incomes, and for those with insufficient savings and credit to tide them over, even these short spells of poverty may present real economic and material hardships.

There is no way of identifying people who live in households that went below the poverty line at some point during the year using CPS data. They can, however, be identified using SIPP monthly income data. The data on assets and liabilities from Wave 4 of the 1984 SIPP also offer the opportunity to assess the extent to which people who live in households which experience short spells with incomes below the poverty line may have sufficient liquid assets to tide them over.<sup>4</sup>

**The Distribution of Monthly Poverty Spells.** Overall, the 1984 SIPP data show that 11.1 percent of the population lived in households with reported annual incomes less

<sup>4</sup>Liquid assets, for the purposes of this study, are total assets less the value of equity in owned homes, businesses, and motor vehicles. These values are all measured as of the last day of the Wave 4 reference period which comes toward the end of the 1984 calendar year. Therefore the assets measured may not have been available to household members during the year when they experienced incomes below the poverty line. Additionally, our measure of liquid assets may not be the best indicator of the money resources which people have to draw on in times of need. Many people are able to borrow against future income in the form of credit. Many people are also able to borrow against nonliquid assets (e.g. home equity loans). Available credit is not included in our measure of assets. Finally, only those assets claimed by the household which the person lived in at the time of his or her Wave 4 interview are considered. This may not have been the same household which that person lived in during all (or even most) of 1984.

than the poverty line in 1984.<sup>5</sup> However, the data in table 2-E show that 25.2 percent of the population lived in households with reported incomes that dropped below the poverty line for 1 or more months during 1984. About 45.5 percent of those who reported 1984 household incomes between one and two times the poverty line experienced at least one month during 1984 when their household income dropped below the poverty line. Even some of those with household incomes three or more times the poverty line experienced 1 or more months with reported household incomes below the poverty line.

**Table 2-E. Persons With 1 or More Months Below The Poverty Line and With Unfilled Poverty Gaps<sup>6</sup> in 1984 by Household Income-to-Poverty Ratios**

(In percent)

Poverty spells	All	Less than 0.50	0.50	1.00	2.00	3.00	4.00	5.00 or more
			up to but not including 1.00	up to but not including 2.00	up to but not including 3.00	up to but not including 4.00	up to but not including 5.00	
In poverty 1 or more months . . . . .	25.2	100.0	100.0	45.5	11.9	5.6	3.5	3.3
1 or more months with unfilled poverty gaps . . . . .	12.5	90.0	71.6	16.5	1.8	0.3	0.1	0.1

Some (such as school teachers or farmers) who experience 1 or more months in poverty but have annual incomes above the poverty line, live in households where the main income source was seasonal. Some also have sufficient savings or credit to cover their expenses during those months when their income is low. Using methods similar to those of Ruggles and Williams,<sup>7</sup> we identified persons who had unfilled monthly poverty gaps (those who reported insufficient liquid assets at the time of their Wave 4 interview to lift them above the poverty line in each month of 1984). Roughly half with household incomes below the poverty line for 1 or more months in 1984 reported sufficient liquid assets late in 1984 to lift them above the poverty line. Virtually no one with household incomes over three times the poverty line appeared to have spent any time below the poverty line after taking account of their reported liquid assets.<sup>8</sup>

<sup>5</sup>For family-based estimates see U.S. Bureau of the Census, Current Population Reports, Series P-70, No.15-RD-1, *op. cit.*

<sup>6</sup>See appendix B for a detailed description of how this variable was constructed.

<sup>7</sup>See Patricia Ruggles and Robertson Williams, *op. cit.*

<sup>8</sup>About 0.3 percent of people with household incomes between three and four times the poverty line had unfilled monthly poverty gaps in 1984. While this number is statistically different from zero it does not constitute a substantively important fraction of people.

Are people in different demographic groups equally vulnerable to spells with household incomes below the poverty line? When people with similar adjusted household incomes are compared, few sizeable differences between Blacks and Whites or between those living with male and female householders are found. If differences in the levels of liquid assets are taken into account, however, some patterns emerge.

Table 2-F shows the percentage of persons with household incomes and liquid assets which were not sufficient to raise them above the poverty line for 1 or more months in 1984 by adjusted 1984 household income and sex of householder. For those with annual household incomes above two times the poverty line there is little or no difference between persons living with male and female householders.<sup>9</sup> However, for persons with lower household incomes, those living with female householders were more likely than those living with male householders to spend 1 or more months in 1984 with reported household

**Table 2-F. Persons With Unfilled Poverty Gaps for 1 or More Months in 1984 by Sex**

(In percent)

Adjusted income-to-poverty ratio	Sex of householder	
	Female	Male
All . . . . .	26.4	8.0
Less than 0.50 . . . . .	95.1	80.4
0.50 up to but not including 1.00 . . . . .	76.5	66.8
1.00 up to but not including 2.00 . . . . .	21.6	14.1
2.00 up to but not including 3.00 . . . . .	1.6	1.8
3.00 up to but not including 4.00 . . . . .	0.8	0.2
4.00 up to but not including 5.00 . . . . .	-	0.1
5.00 and over . . . . .	-	0.2

**Table 2-G. Persons With Unfilled Poverty Gaps for 1 or More Months in 1984 by Race**

(In percent)

Adjusted income-to-poverty ratio	Black	White
All . . . . .	33.3	9.3
Less than 0.50 . . . . .	97.5	84.2
0.50 up to but not including 1.00 . . . . .	80.6	67.4
1.00 up to but not including 2.00 . . . . .	22.3	14.9
2.00 up to but not including 3.00 . . . . .	3.7	1.6
3.00 up to but not including 4.00 . . . . .	0.2	0.3
4.00 up to but not including 5.00 . . . . .	-	0.1
5.00 and over . . . . .	-	0.1

income and liquid assets below the poverty line. This was true even when persons living in households with similar adjusted household incomes are compared.

<sup>9</sup>The difference between those living with male and female householders who report household incomes above five times the poverty line is 0.2 percent. This is statistically different from zero, but from a substantive point of view the difference is trivial.

A similar pattern emerges when we compare Blacks and Whites. Overall, Blacks were much more likely than Whites to have spent 1 or more months in 1984 with household income and liquid assets below the poverty line (table 2-G). This was also true for Blacks and Whites with similar adjusted annual household incomes below three times the poverty line.

There were important differences among age groups (table 2-H). The data clearly show that the elderly were consistently less likely to report 1984 monthly household incomes below the poverty line than younger persons.<sup>10</sup> This is true overall, and it is true when age groups with similar adjusted annual household incomes between one and five times the poverty line are compared. Overall, children under age 18 were most likely to spend 1 or more months with household incomes below the poverty line. However, when persons with similar annual household income-to-poverty ratios are compared, those between the

**Table 2-H. Persons Reporting Household Income Below Poverty Line for 1 or More Months in 1984 by Age**

(In percent)

Adjusted income-to-poverty ratio	Age of person				
	Less than 18 years	18 to 24 years	25 to 44 years	45 to 64 years	65 years and over
All .....	35.2	27.1	22.6	18.6	17.2
Less than 1.00 .....	100.0	100.0	100.0	100.0	100.0
1.00 up to but not including 2.00 ...	50.1	56.6	50.9	44.5	19.4
2.00 up to but not including 3.00 ...	12.8	17.4	12.8	11.7	1.7
3.00 up to but not including 4.00 ...	5.3	8.3	6.0	5.3	1.7
4.00 up to but not including 5.00 ...	3.6	4.1	3.8	3.5	1.1
5.00 and over .....	6.1	3.0	3.5	2.5	1.0

ages of 18 and 24 years with incomes between one and four times the poverty line appear to have been the most likely, compared to older age groups, to spend 1 or more months with incomes below the poverty line.

When the potential role of liquid assets is considered, the patterns become more pronounced (table 2-I). Overall, people 45 years and over were least likely to report household incomes and liquid assets below the poverty line for 1 or more months in 1984. Children under age 18 were the most likely to be in this situation.

When those with similar adjusted annual household incomes between 50 percent and 300 percent of the poverty line are compared, the elderly appear to have been the least likely to spend 1 or more months with household incomes and liquid assets below the poverty line. Nearly 40 percent of the elderly with annual household incomes

**Table 2-I. Persons With Unfilled Poverty Gaps For 1 or More Months in 1984 by Age**

(In percent)

Adjusted income-to-poverty ratio	Age of person				
	Less than 18 years	18 to 24 years	25 to 44 years	45 to 64 years	65 years and over
All .....	19.6	13.0	10.3	7.8	8.5
Less than 0.50 .....	93.6	95.2	88.4	73.1	83.6
0.50 up to but not including 1.00 ...	75.1	73.3	71.1	71.0	61.3
1.00 up to but not including 2.00 ...	18.5	23.2	19.0	13.8	5.7
2.00 up to but not including 3.00 ...	1.8	2.8	2.0	1.7	0.4
3.00 up to but not including 4.00 ...	0.2	0.7	0.3	0.2	0.2
4.00 up to but not including 5.00 ...	-	-	0.1	0.2	-
5.00 and over .....	0.3	0.1	0.2	0.1	-

between 50 and 100 percent of the poverty line had sufficient liquid assets to keep them out of poverty for the entire year. Nearly 25 percent of children appear to have been in households with similar resources. On the other hand, 23 percent of those 18 to 24 years with annual household incomes between one and two times the poverty line spent at least one month of 1984 with household incomes and liquid assets below the poverty line. Only 5.7 percent of the elderly were in similar straits.

**Who Appears To Be Economically Disadvantaged? A** substantial proportion of people appear to experience relatively large month-to-month fluctuations in their household income. Many of those monthly changes result in people spending 1 or more months with household incomes below the poverty line. While many with monthly household incomes below the poverty line seem to have sufficient liquid assets to raise them above the poverty line, many do not.

A classification of people as economically disadvantaged based on reported monthly household income would yield quite different results from a classification based on reported annual household income. Specifically, the data presented in this chapter suggest that:

- Elderly persons live in households which report much more stable incomes than the nonelderly. Nevertheless, 19.4 percent of elderly in households with incomes between one and two times the poverty line spent at least 1 month in 1984 with reported household incomes below the poverty line.
- Blacks and Whites with similar adjusted annual household incomes had similar probabilities of spending 1 or more months in 1984 with reported household incomes below the poverty line.

Spending 1 month with a household income below the poverty line may not always constitute a hardship for people. Those with relatively high annual incomes may be

<sup>10</sup> The percentage for the group 45-64 years (18.6) was not statistically different from that for those aged 65 years and over (17.2).

better equipped to weather short periods with little or no income. This is less likely to be true among those with relatively low household incomes. For those people, even a spell with household income below the poverty line lasting only 1 or 2 months may constitute a substantial hardship.

Accounting periods of less than a year may well be more appropriate for some purposes than for others. Living conditions which are tied to the consumption of perishable goods which cannot generally be purchased on credit (such as food) may be more sensitive to monthly income fluctuations than other living conditions (such as those related to housing situations). Additionally, eligibility for means-tested government programs is generally based on monthly rather than annual income.

In any case, it is clear that many more people may be at risk of suffering material hardships that accompany periods of low income than statistics based on an annual accounting period indicate. How many more people are at risk depends on a number of factors. The ability to live on savings and credit during periods of financial stress is one such factor. SIPP data do not provide information about the level of credit to which people have access. However,

SIPP does provide some information about assets. The data presented in this chapter suggest that:

- Children under age 18 appear to have been at the greatest risk of spending 1 or more months with insufficient income and liquid assets to raise them above the poverty line overall. Among persons with similar annual household incomes between 50 and 300 percent of the poverty line, the elderly were at lower risk than younger people.
- Those living with female householders were more likely than those living with male householders to spend one or more months in 1984 with household incomes and liquid assets below the poverty line, even when they report similar annual household incomes.
- Blacks were more likely than Whites to spend 1 or more months in 1984 with reported household incomes and liquid assets below the poverty line, even when they report similar annual household incomes.

The next chapter further explores how people's savings and debts affect our assessment of their economic well-being.

## Chapter 3. The Distribution of Assets and Wealth

The previous two chapters focused on current household income as an indicator of economic well-being. Chapter 1 explored the distribution of annual household income among people in several different demographic groups. The second chapter asked, "How stable are household incomes from month to month?" In both cases the focus was based on household income as the traditional indicator of the economic resources available to household members. Income, however, is only one form that economic resources can take. Short-term drops in household income can potentially be offset by drawing upon savings. In chapter 2, assets were examined in this context. In this chapter, assets are examined as a measure of potential consumption. Specifically, this chapter considers the role that savings and debts may play in the assessment of economic well-being.

Many people have accumulated savings and access to credit. Persons living in households with the same current income may have quite different levels of accumulated total net worth. In some sense, those with higher levels of total net worth are better off than those with lower levels of total net worth, all other things being equal.

**Measuring Household Assets and Wealth.** In the fourth interview of the 1984 SIPP, respondents were asked about the value of their current assets and debts. Such sources of assets as savings and checking accounts, stocks, bonds, the amount of equity in owned homes and businesses, etc. were considered. Sources of debt included such things as outstanding loans, mortgages, credit cards, medical bills, etc. A household's total net worth is the sum of all accumulated assets of household members less the total debt incurred by those members.<sup>1</sup> For this report, household wealth was treated in a manner analogous to household income: just as we computed average household income of persons in chapter 1, we computed average household net worth of persons here.<sup>2</sup>

<sup>1</sup>See U.S. Bureau of the Census, Current Population Reports, Series P-70, No. 7, *Household Wealth and Asset Ownership: 1984*, U.S. Government Printing Office, Washington, DC., 1986, for a more detailed discussion of these data. For more recent estimates, see U.S. Bureau of the Census, Current Population Reports, Series P-70, No. 22, *Household Wealth and Asset Ownership: 1988*, U.S. Government Printing Office, Washington, DC., 1990.

<sup>2</sup>This is somewhat different from the treatment of these data in other Census Bureau reports. The unit of analysis in this report remains the person, while other reports use the household as the basic unit of analysis. For this reason, the results reported here are not strictly comparable to those in other Census Bureau reports. See appendix B for

**The Distribution of Assets and Wealth by Age of Person.** Many factors affect the level of total net worth to which household members have access. Figure 3-1 illustrates the relationship between 1984 household income and average household net worth for people in different age groups. (Note that points plotted in the charts correspond to mean household income by income group.)<sup>3</sup> The life cycle effects are quite apparent. Even when those with similar 1984 household incomes are compared, the elderly had much higher average household net worth than those under age 45. When those living in households with 1984 household incomes in the bottom decile are compared, the elderly reported average household net worth about 3.5 times higher than those under age 18 (see appendix table 2 for data). The ratio is similar for other income groups.

If we take account of differences in household composition using income-to-poverty ratios the basic story does not change (table 3-A). Comparing those living in households with 1984 incomes less than half the poverty line, the elderly reported average household net worth 3.3 times higher than those under age 18. For those with 1984 household incomes between three and four times the poverty line, the elderly reported average household net worth 1.8 times higher than those under age 18.

It would be a mistake to assume that all of the value reflected in household net worth is readily available to household members to support them at times when their income is low. For many, sizeable portions of total savings are tied up in their homes and automobiles. While homes and autos can be sold, there are costs involved in doing that. Furthermore, selling off nonmonetary assets takes time. While it may be possible to secure loans using the equity of homes and businesses as collateral, those loans must eventually be repaid. For some purposes, it is clearly preferable to consider the level of readily available resources to which people have access.

details. Furthermore, as in the case of income, medians are sometimes preferred to means when distributions are highly skewed. The results presented here may have differed if medians had been used as the measure of central tendency.

<sup>3</sup>Figure 3-1 plots mean household net worth of persons by mean household income for persons in different age groups. The horizontal positions of the plot points are based on the mean household income of persons in each of the household income groups. Points used to plot lines for different demographic groups are not directly above/below each other because people in different groups have different mean household incomes within each of the income groups plotted. This is most notable for those with reported household incomes in the top income quintile. Throughout this report, figures which use household income along the horizontal axis are similarly constructed.

**Table 3-A. Average Household Net Worth of Persons by 1984 Household Income-to-Poverty Ratio and Age of Person**

Income-to-poverty ratio	Age of persons				
	Less than 18 years	18 to 24 years	25 to 44 years	45 to 64 years	65 years and over
All .....	\$55,823	\$69,184	\$58,108	\$129,962	\$116,965
Less than 0.50 . . .	6,214	4,689	11,243	18,401	20,440
0.50 up to but not including 1.00 . . .	17,162	16,229	19,327	29,592	25,092
1.00 up to but not including 2.00 . . .	30,915	24,267	26,921	51,281	44,728
2.00 up to but not including 3.00 . . .	46,515	40,637	38,913	75,572	85,535
3.00 up to but not including 4.00 . . .	67,136	51,742	54,647	93,036	120,260
4.00 up to but not including 5.00 . . .	95,856	89,899	68,759	117,888	192,443
5.00 and over . . . .	186,686	193,241	125,677	273,551	373,289

Table 3-B summarizes the relationship between the level of liquid assets and 1984 household income for different age groups.<sup>4</sup> The patterns are nearly identical to those displayed in figure 3-1. Overall, persons age 45 to 64 years lived in households with the highest average liquid assets. However, when people with similar household incomes above the bottom decile are compared, the elderly are found to have lived in households with the highest average liquid assets. If persons living in households with incomes in the third quintile are compared, the elderly lived in households with average liquid assets 2.4 times higher than the households of those under age 18.

**Table 3-B. Average Household Liquid Assets of Persons by 1984 Household Income and Age of Person**

Household income	Age of person				
	Less than 18 years	18 to 24 years	25 to 44 years	45 to 64 years	65 years and over
All .....	\$45,181	\$49,090	\$50,534	\$87,290	\$71,999
1st decile .....	4,643	5,187	7,165	16,283	10,251
2nd decile .....	11,338	8,540	14,594	22,649	27,723
2nd quintile .....	20,258	13,198	20,293	37,228	46,560
3rd quintile .....	36,484	26,694	34,294	48,199	86,593
4th quintile .....	48,136	38,971	48,136	73,142	131,503
5th quintile .....	118,850	135,260	120,474	210,622	368,143

**The Distribution of Assets and Wealth by Sex of Householder.** Another factor which may have some bearing on the level of total net worth to which household members have access is the type of household in which

<sup>4</sup>For this report, liquid assets were calculated as total assets less the sum of equity in owned businesses, homes, and vehicles.

they live. The number of adults, their earning potential, and the number of people supported may all be important. Households with a female householder are more likely to rely on a single adult earner than those households with a male householder.<sup>5</sup> Chapter 1 showed that persons living in households with female householders were concentrated in the lower end of the 1984 household income distribution relative to those living with male householders. Here two questions are asked. First, do those living in households with female householders have lower levels of total net worth? Second, are measures of annual income reliable indicators of the relative total net worth of those living in households with male and female householders?

Table 3-C shows three measures of household wealth for people living in households with male and female householders. The patterns are consistent with those exhibited in measures of annual household income. Those living in households with male householders have higher average levels of total household net worth, average home equity, and average household liquid assets than those living with female householders.

**Table 3-C. Mean Net Worth, Home Equity, and Liquid Assets of Persons by Sex of Householder**

Sex of householder	Net worth	Home equity	Liquid assets
Male .....	\$89,214	\$37,501	\$66,792
Female .....	\$48,476	\$24,608	\$32,490

When those living in households with similar 1984 household incomes are compared, do those living with female householders have the same levels of household wealth as those living with male householders? Except for those reporting household incomes in the second and third quintiles, persons living with male householders reported somewhat higher average net worth than those living with female householders (figure 3-2).

Average liquid assets tell a similar story (table 3-D). The only appreciable disparities occur in the top and bottom 1984 household income quintiles. For those with household incomes in the middle three quintiles, average levels of liquid assets are nearly the same for those living with male versus female householders.

The patterns are similar when differences in household composition are taken into account by adjusting household incomes with poverty thresholds (table 3-E).

The largest relative disparities in net worth between those living with male and female householders are at the top and bottom of the adjusted income distribution. For people living in households with incomes between two and

<sup>5</sup>There was an average 1.8 full-time earners for those living in households with male householders, compared with 1.3 for those living in households with female householders.

three times the poverty line there is no discernible difference in average reported household net worth of those living with male and female householders.<sup>6</sup>

**Table 3-D. Average Household Liquid Assets of Persons by Household Income and Sex of Householder**

Income	Sex of householder	
	Female	Male
1st decile .....	\$5,841	\$13,316
2nd decile .....	\$12,788	\$20,581
2nd quintile .....	\$24,211	\$26,836
3rd quintile .....	\$41,327	\$40,125
4th quintile .....	\$53,113	\$57,214
5th quintile .....	\$124,290	\$157,744

**Table 3-E. Average Household Net Worth of Persons by Household Income-to-Poverty Ratio and Sex of Householder**

Income-to-poverty ratio	Female	Male
Less than 0.50 .....	\$3,774	\$18,839
0.50 up to but not including 1.00 .....	\$14,198	\$26,090
1.00 up to but not including 2.00 .....	\$27,756	\$37,344
2.00 up to but not including 3.00 .....	\$50,992	\$52,822
3.00 up to but not including 4.00 .....	\$57,875	\$73,977
4.00 up to but not including 5.00 .....	\$87,776	\$101,153
5.00 and over .....	\$159,288	\$216,385

Those living with male householders reported somewhat higher average levels of liquid assets than people living with female householders who reported similar adjusted household incomes (figure 3-3), except for those with incomes between four and five times the poverty line.<sup>7</sup> The absolute gap between people living with

<sup>6</sup>When persons living in married-couple households are compared with those living with single householders and unrelated individuals, there are statistically significant differences at all income levels, though in the same direction.

**Average Household Net Worth of Persons by Household Type**

Income-to-poverty ratio	Single heads and unrelated individuals	Married couples
Less than 0.50 .....	\$4,520	\$20,347
0.50 up to but not including 1.00 .....	\$13,566	\$27,643
1.00 up to but not including 2.00 .....	\$26,520	\$38,386
2.00 up to but not including 3.00 .....	\$44,887	\$54,705
3.00 up to but not including 4.00 .....	\$50,928	\$75,949
4.00 up to but not including 5.00 .....	\$83,423	\$137,379
5.00 and over .....	\$137,552	\$225,166

male and female householders is largest at the top of the adjusted income distribution. The relative gap is largest at the bottom of the adjusted income distribution: people with reported household incomes less than half the poverty line living with male householders had 6.5 times the average liquid assets of those living with female householders with similar adjusted household incomes.

**The Distribution of Assets and Wealth by Race.** In 1984, Whites lived in households with four times the average net worth, over two times the home equity, and over four times the liquid assets of Blacks (table 3-F). These patterns are consistent with those observed in the income statistics presented in chapter 1.

**Table 3-F. Average Net Worth, Home Equity, and Liquid Assets of Persons by Race of Person**

Race	Net worth	Home equity	Liquid assets
White .....	\$87,452	\$37,048	\$64,084
Black .....	\$20,592	\$14,771	\$13,305

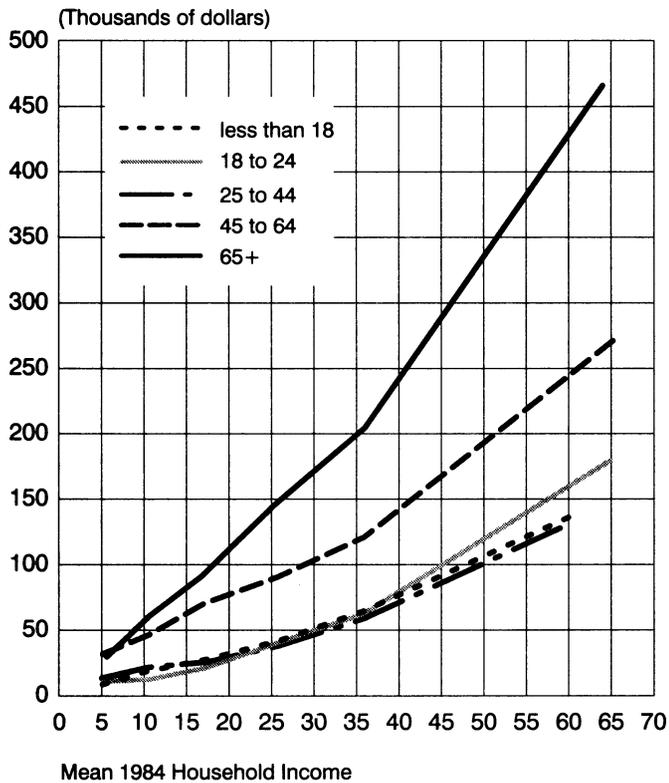
Whites reported substantially higher average net worth than Blacks even when Whites and Blacks with similar household incomes are compared (figure 3-4). At every income level, Whites reported over twice the average net worth of Blacks. The relative disparity was greatest among those with household incomes in the bottom decile where Whites reported average net worth over four times that of Blacks. Blacks with household incomes in the top quintile had roughly the same average net worth as Whites with household incomes in the middle quintile.

Similar conclusions are drawn from the data on liquid assets. Whites had substantially higher average liquid assets than Blacks, even when those with similar household incomes are compared (table 3-G). Among those in the bottom decile, Whites reported average liquid assets about seven times greater than those of Blacks, and Blacks with incomes in the top quintile reported average liquid assets similar to those of Whites in the middle income quintile.

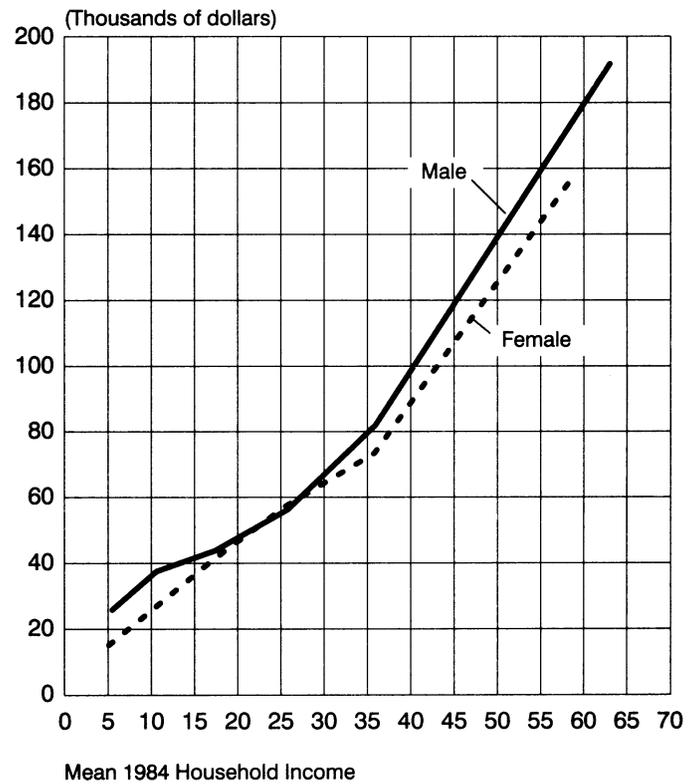
Adjusting household incomes using the poverty line does not change things much. Whites reported substantially higher average net worth than Blacks even when

<sup>7</sup>Figure 3-3 plots mean household liquid assets of persons by mean household income-to-poverty ratios for persons living with male and female householders. The horizontal positions of the plot points are based on the mean household income-to-poverty ratios of persons in each of the poverty ratio groups included in the appendix tables. Points used to plot different demographic groups are not directly above/below each other because different groups have different mean household income-to-poverty ratios within each of the poverty ratio groups plotted. This is most notable for those with reported household incomes in the top group with reported household incomes over 5.0 times the poverty line. Throughout this report, figures which use household income-to-poverty ratios along the horizontal axis are similarly constructed.

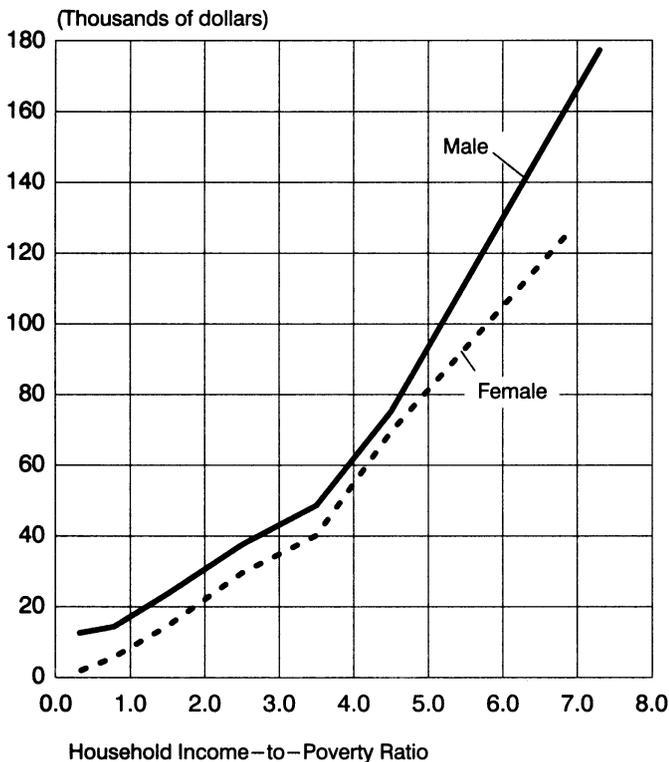
**Figure 3-1.**  
**Mean Household Net Worth of Persons**  
**by Household Income and Age**



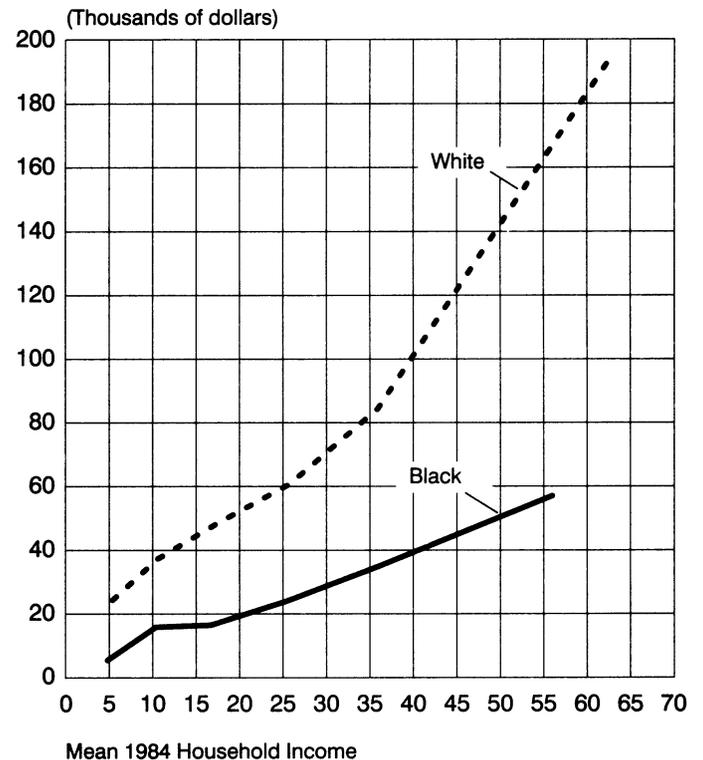
**Figure 3-2.**  
**Mean Household Net Worth of Persons by**  
**Household Income and Sex of Householder**



**Figure 3-3.**  
**Mean Household Liquid Assets of**  
**Persons by Household Income—to—**  
**Poverty Ratio and Sex of Householder**



**Figure 3-4.**  
**Mean Household Net Worth of Persons**  
**by Household Income and Race**



**Table 3-G. Average Household Liquid Assets of Persons by Household Income and Race**

Income	White	Black
1st decile .....	\$11,095	\$1,510
2nd decile.....	\$19,808	\$7,200
2nd quintile.....	\$29,504	\$9,456
3rd quintile .....	\$43,181	\$17,944
4th quintile .....	\$59,341	\$22,527
5th quintile .....	\$156,750	\$46,520

people with similar reported household income-to-poverty ratios are compared (table 3-H). Blacks living in households with incomes between three and four times the poverty line reported average net worth below that of Whites living in households with incomes between one and two times the poverty line.<sup>8</sup>

Table 3-I shows that the pattern for liquid assets was much the same as for total net worth.

**Table 3-H. Average Household Net Worth of Persons by Household Income-to-Poverty Ratio and Race**

Income-to-poverty ratio	White	Black
Less than 0.50.....	\$13,346	\$3,394
0.50 up to but not including 1.00.....	\$24,892	\$9,343
1.00 up to but not including 2.00.....	\$38,599	\$16,391
2.00 up to but not including 3.00.....	\$55,332	\$24,117
3.00 up to but not including 4.00.....	\$73,892	\$31,175
4.00 up to but not including 5.00.....	\$101,961	\$44,308
5.00 and over .....	\$212,449	\$69,494

### Who Appears To Be Economically Disadvantaged?

The accumulated savings and debts of a household constitute an important component of the total economic resources available to people. The results presented in

<sup>8</sup>In 1984, those in households with incomes between three and four times the poverty line reported incomes of roughly \$32,800. Those with household incomes between 50 and 100 percent of the poverty line had incomes of roughly \$8,000.

**Table 3-I. Average Household Liquid Assets of Persons by Household Income-to-Poverty Ratio and Race**

Income-to-poverty ratio	White	Black
Less than 0.50.....	\$9,040	\$969
0.50 up to but not including 1.00.....	\$12,528	\$3,399
1.00 up to but not including 2.00.....	\$23,301	\$9,040
2.00 up to but not including 3.00.....	\$37,984	\$15,978
3.00 up to but not including 4.00.....	\$48,443	\$21,592
4.00 up to but not including 5.00.....	\$74,507	\$40,841
5.00 and over .....	\$171,894	\$49,195

this chapter suggest that annual household income, as it is traditionally measured, may not always be a reliable guide to relative levels of wealth. This conclusion was reached by comparing people with similar reported household incomes and asking whether they appear to be similarly well-off in terms of other measures of economic well-being. The data presented in this chapter suggest that:

- The elderly reported substantially higher average levels of wealth than the young even when people with similar current household incomes were compared.
- At the top and the bottom of the income distribution, those living with male householders reported higher average levels of wealth than those living with female householders who reported similar household incomes.
- Whites reported substantially higher average levels of wealth than Blacks even when Whites and Blacks with similar household incomes were compared.

Thus far, this study has been concerned with some of the economic resources which directly accrue to household members. People also have access to resources which are not directly reflected in these household accounts. Persons who are employed often receive some of their compensation in the form of noncash fringe benefits, and national, state, and local governments provide noncash support through many social welfare programs. Noncash benefits of this sort are not included in traditional household income and poverty measures. The next part of this report considers both of these factors in greater detail.