Part II. Noncash Income: Fringe Benefits and Government Support

The first three chapters of this report have discussed some of the economic resources that accrue directly to household members. People also have access to resources that are not directly reflected in these household accounts. The employed often receive some compensation in the form of noncash fringe benefits. The most common benefits are employer contributions to retirement and pension funds; vacation time; sick leave; and medical, disability, and life insurance. Some receive the use of a vehicle or housing. Benefits paid (in whole or in part) by the employer constitute forms of income which are not included in traditional household income and poverty statistics.

National, state, and local governments also play a role that is not directly reflected in traditional measures of income and poverty. Taxes reduce the amount of money available to cover living expenses. Many rely on resources provided by governmental agencies. Some of these social welfare programs support people living in households of limited means (e.g., Food Stamps), while others are designed to aid all individuals who meet other sorts of eligibility criteria (e.g., Social Security provides support for the disabled and elderly regardless of the personal and household resources of the recipients).

When government programs provide direct cash payments (as is the case, for example, with the Social Security Old Age, Survivor, and Disability Insurance program — OASDI), the value of the support is included in the income and official poverty statistics. Other programs provide noncash support. Medicaid, Medicare, housing programs, school meal programs, and the Supplemental Food Program for Women, Infants, and Children (WIC) are all examples of noncash programs. To the extent that people participate in noncash programs, traditional household income and poverty statistics fail to take account of some of the resources available to them.

Part II of this report considers the distribution of noncash income. Chapter 4 focuses on the distribution of employer provided noncash fringe benefits. Chapter 5 focuses on the role of public welfare programs. Both chapters pose the question, "Are group differences in annual household income and poverty reliable guides to differences in the receipt of noncash income?"[1]

[1]No attempt will be made here to estimate the cash value of these resources. See U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 169-RD, *op. cit.,* for one method of incorporating the value of government-provided benefits and taxes into estimates of income and poverty distributions.

Chapter 4. The Distribution of Employment-Tied Fringe Benefits

In Wave 6 of the 1984 SIPP, respondents were asked whether they received, through their employment, any health insurance, life insurance, use of a company vehicle, use of an expense account, lodging, or meals. While lodging and meals have the potential to be quite valuable benefits for those who receive them, they were extremely rare in all segments of the population examined in this study, and at all income levels. Pension and retirement funds, on the other hand, are quite common and potentially valuable. Since the income that derives from these funds is already included in measures of current income when they are drawn down by the retiree, they are not considered here as an additional economic resource at the time employer contributions are made. This report, therefore, focuses on health insurance, life insurance, use of an expense account, and use of a company vehicle. Since the concern here is with the use of household income and poverty as indicators of well-being, we ask whether people lived in households where *anyone* received these fringe benefits *at any time* during 1984.[1]

Employment-Tied Fringe Benefits by Age of Person. Employment-tied benefits are generally offered only to those currently working. It is therefore not surprising that all of the employment-tied benefits considered here were much less common among persons 65 years and over than among younger persons. This was true for all of the benefits we considered for persons living in households with incomes above the bottom decile. When those living in households with similar adjusted household incomes were compared, the patterns were largely unchanged. For the most part, the elderly were quite unlikely to have employment-tied life insurance, use of a company vehicle, or an expense account. This was true at any reported income level, regardless of whether household income was adjusted for household size using the poverty line.[2]

[1]Also see U.S. Bureau of the Census, Current Population Reports, Series P-70, No. 17, *Health Insurance Coverage: 1986-88*, U.S. Government Printing Office, Washington, DC, 1990. For information on pensions see U.S. Bureau of the Census, Current Population Reports, Series P-70, No 12, *Pensions: Worker Coverage and Retirement Income: 1984*, U.S. Government Printing Office, Washington, DC, 1987, and No. 25, *Pensions: Worker Coverage and Retirement Income: 1987*, U.S. Government Printing Office, Washington, DC, 1991.

[2]All differences between the elderly and non-elderly are statistically significant except for employment-tied medical insurance for those with household incomes less than 50 percent of the poverty line, employment-tied expense accounts for those with incomes less than 50 percent of the poverty line, and employment-tied expense accounts for those with incomes between 50 and 100 percent of the poverty line.

Figure 4-1 shows the relationship between 1984 household income and employment-tied life insurance for those in different age groups.

In the case of medical insurance, the story is somewhat different. Many employers allow their workers to continue participating in their group health insurance programs after retirement. While most employers do not subsidize former employees directly, the premiums paid by those who continue their coverage after retirement are probably less than these people would pay for private coverage. Even among the elderly, a substantial portion of people who reported household incomes above the first quintile lived with someone who received employment-tied medical insurance in 1984 (table 4-A).

Table 4-A. **Percentage of Persons Living in a Household in 1984 Where Someone Received Employment-Tied Medical Insurance by Household Income and Age of Person**

Household income	Less than 18	18 to 24 years	25 to 44 years	45 to 64 years	65 years and over
All	79.7	83.8	86.4	81.6	50.2
1st decile	16.7	20.8	23.6	24.2	14.9
2nd decile	50.8	59.8	58.9	59.4	35.7
2nd quintile	81.0	81.8	85.3	79.6	61.6
3rd quintile	93.4	93.3	94.2	93.4	71.3
4th quintile	94.8	96.6	96.2	95.0	81.6
5th quintile	94.2	96.3	96.3	92.5	82.5

Employment-Tied Fringe Benefits by Sex of Householder. Generally, we find little or no differences in receipt of fringe benefits between those living with male and female householders with similar household incomes.[3] The only substantial difference detected is in the use of a company-provided vehicle. At any reported income level, those living with male householders were somewhat more likely to live in households which had this benefit than those living with female householders (table 4.B).

[3]The following differences between those living with male and female householders are statistically significant: employment-tied medical insurance for those with household incomes in the first decile, and for those with incomes in the second quintile; employment-tied life insurance for those with incomes in the fifth quintile; and employment-tied expenses accounts for those with incomes in the third quintile, and for those with incomes in the fifth quintile. However, these differences are not substantively large.

Figure 4-1.
Persons Living in Households Where Someone Received Employment-Tied Life Insurance by Age and Household Income

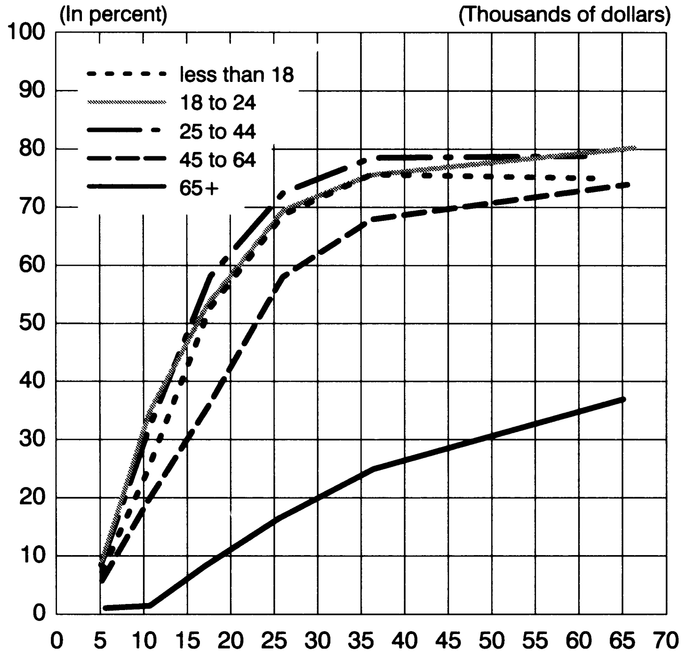
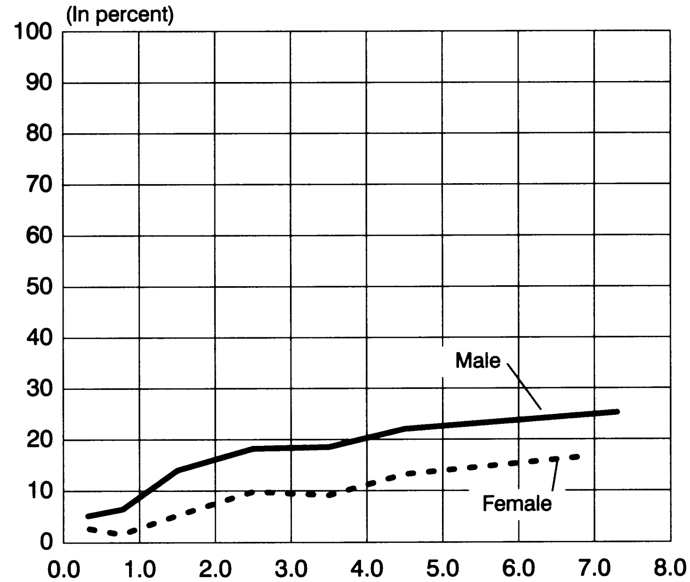


Table 4-B. **Percentage of Persons Living in a Household in 1984 Where Someone Received the Use of a Company Vehicle by Household Income and Sex of Householder**

Household income	Female	Male
All	7.4	18.5
1st decile	2.1	5.0
2nd decile	1.2	7.4
2nd quintile	7.2	14.0
3rd quintile	10.8	18.3
4th quintile	16.2	21.2
5th quintile	18.5	26.0

Consistent but small differences between those living with male and female householders are found for all of the benefits considered here when people with similar adjusted household incomes are compared. Those living with male householders were slightly more likely than those living with female householders to have lived with someone in 1984 who received employment-tied medical and life insurance, use of a company vehicle, and/or use of an expense account. For some of these benefits, the differences are smaller (and, at times, not statistically significant)[4] at the ends of the adjusted income distribution than in the middle, but the differences are always in the same direction. Figure 4-2 shows the percentage of persons living in households where someone had the use of a company vehicle by household income-to-poverty ratio and the sex of the householder.

Figure 4-2.
Persons Living With Someone Who Had Use of Company Vehicle by Income-to-Poverty Ratio and Sex of Householder



Employment-Tied Fringe Benefits by Race of Person. The differences between Blacks and Whites with similar 1984 household incomes varied by the type of fringe benefit. Overall, Blacks were quite a bit less likely than Whites to have lived in households where someone received employment-tied medical insurance. However, there was little difference when Blacks and Whites with similar incomes above the second decile were compared,[5] and there was little difference between Blacks and Whites who reported similar adjusted household incomes at any level.[6] Blacks appeared slightly more likely than Whites with similar

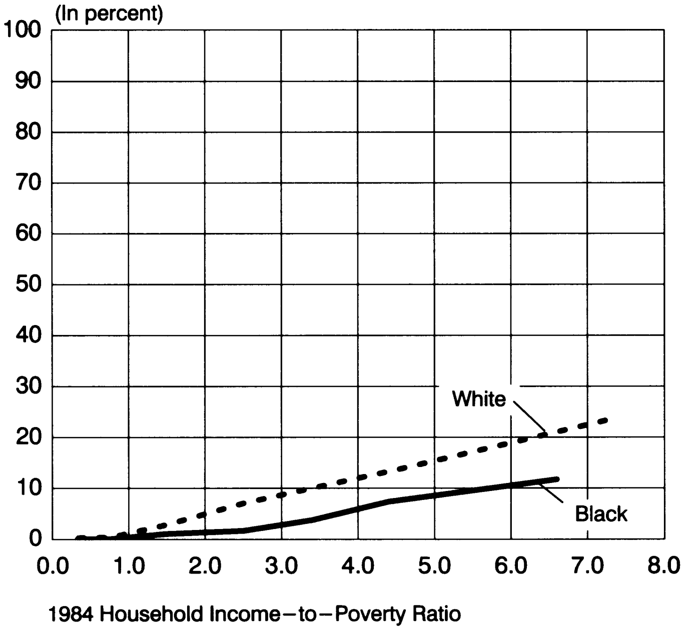
[4]The following differences between those living with male and female householders were not statistically significant: employment-tied medical insurance for those with incomes between 4.0 and 5.0 times the poverty line, and for those with incomes above 5.0 times the poverty line; employment-tied life insurance for those with incomes less than 0.5 times the poverty line, for those with incomes between 4.0 and 5.0 times the poverty line, and for those with incomes above 5.0 times the poverty line; employment provided vehicles for those with incomes less than 0.5 times the poverty line; and employment-tied expense accounts for those with incomes less than 0.5 times the poverty line, for those with incomes between 0.5 and 1.0 times the poverty line, and for those with incomes over 5.0 times the poverty line.

[5]While the differences between Blacks and Whites with incomes in the top two quintiles were statistically significant, in each case Whites were only 4 percentage points more likely to have this fringe benefit than Blacks, except in the fourth quintile. There were no statistical differences in the second and third quintiles.

[6]While the differences between Blacks and Whites with incomes less than 0.5 times the poverty line, between 1.0 and 2.0 times the poverty line, between 2.0 and 3.0 times the poverty line, between 3.0 and 4.0 times the poverty line, and between 4.0 and 5.0 times the poverty line are all statistically significant, the differences were not large.

household incomes (adjusted or unadjusted) to live in households where someone received employment-tied life insurance.[7] Whites with household incomes in the upper three quintiles appear to have been slightly more likely than Blacks with similar incomes to live in households where someone had use of a company vehicle[8] or an expense account.[9] As Figure 4-3 shows, the pattern for expense accounts is similar when Blacks and Whites with similar household incomes two times above the poverty line are compared.

Figure 4–3.
Persons Living With Someone Who Had Use of A Company Expense Account by Income–to–Poverty Ratio and Race



[7]The differences between Blacks and Whites with reported household incomes in the first decile, with incomes in the top quintile, and with incomes less than 0.5 times the poverty line were not statistically significant. Except for those with incomes in the bottom decile, the differences between Blacks and Whites in these cases were all in the same direction as described in the text.

[8]Differences at all levels were statistically significant. However, for those with incomes in the bottom two quintiles and the fourth quintile, the differences were small.

Who Appears to be Economically Disadvantaged? Employer-provided fringe benefits are a component of the total resources available to many people. To the extent that these benefits are subsidized directly by employers, their value is not reflected in traditional measures of household income or poverty.

This chapter suggests that there is variation in the likelihood that people live in households which receive fringe benefits from employment which is not related to differences in annual household income. The data presented in this chapter suggest that:

- The elderly were less likely than others reporting similar household incomes to live with someone who received any of the employer-provided fringe benefits considered.
- Those who lived with female householders were slightly less likely than others with similar adjusted household incomes to live with someone in 1984 who received any of the employer-provided fringe benefits considered here.
- Blacks and Whites with similar household incomes appeared to be about equally likely to live with someone who received employer-provided medical insurance, the most common fringe benefit. However, Blacks were slightly more likely than Whites reporting similar household incomes to live with someone who received employment-tied life insurance, and were slightly less likely than Whites reporting similar household incomes to live with someone who had the use of an expense account or an employer-provided vehicle.

While many of these differences are not large, they are not unimportant. Ignoring the role of employer-provided noncash benefits underestimates the resources of the nonelderly relative to the elderly. Further, since those living in households with higher incomes were more likely to receive all of the benefits considered here than those with lower incomes, the inclusion of noncash income into a measure of household resources would accentuate the differences in economic well-being which are already detected using a traditional money income concept. For example, the net effect would be to widen the gap between those living with male and female householders.

[9]The difference between Whites and Blacks with incomes in the second decile and for those with incomes in the second quintile were statistically significant. However, those differences were substantively small.

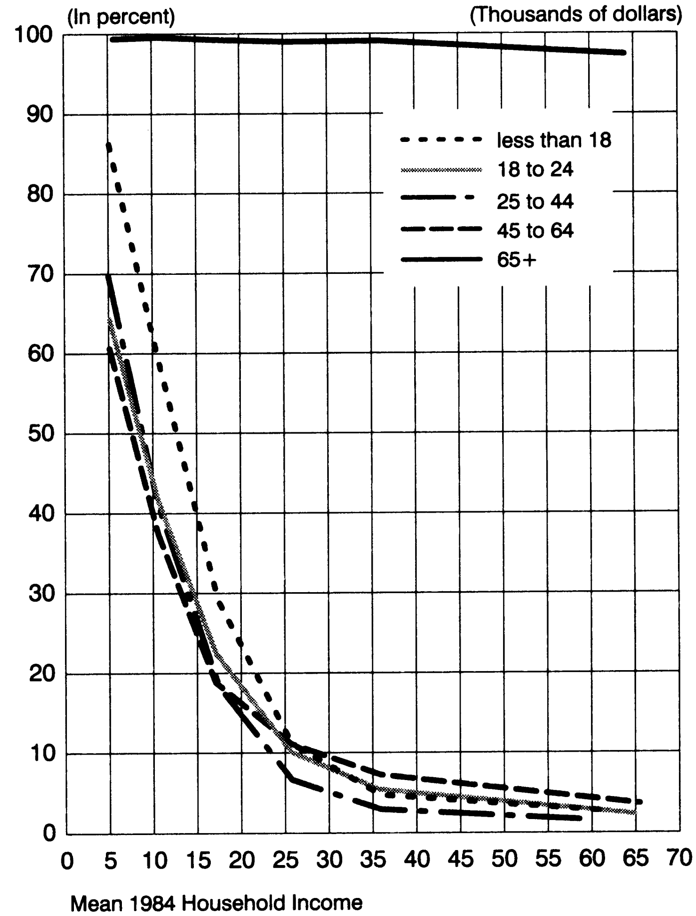
Chapter 5. The Distribution of Public Program Participation

National, state, and local governments all provide support and services for segments of their populations. Some of these are entitlement programs: they provide support for people regardless of their own economic resources. Medicare is one example of such a program, providing medical insurance for virtually all people 65 years and older. Eligibility for means-tested programs, on the other hand, is based on private economic resources. Food stamps, for example, provide support to people who have limited income and savings, regardless of their age, health status, or any other consideration. Some programs provide support in the form of money: Aid to Families with Dependent Children (AFDC) and Social Security are two examples. And, finally, some programs provide support in-kind, by subsidizing, in whole or in part, specific goods and services. Public housing and Medicaid are examples.

No matter what form they take, government programs presumably raise the standard of living for those who receive benefits. When those benefits are paid directly to participants as cash, the payments are reflected in traditional household income and poverty statistics. However, when programs provide in-kind support, the benefits are not included in these statistics.[1] For that reason the focus here is on participation in government programs which provide in-kind (or noncash) support. Participation in the Food Stamp, Medicaid, Medicare, WIC, rent subsidy, and public housing programs are considered.

Program Participation by Age of Person. Nearly all elderly persons received some form of noncash income from the government in 1984 (figure 5-1). This finding is not surprising since persons 65 years and over are almost universally covered by Medicare. While the finding is not surprising, it has important implications. The elderly are more likely than others to receive in-kind support from the government no matter what their income. Since these transfers are not included in traditional income and poverty statistics, the resources of the elderly relative to younger people are underestimated by those traditional measures.

Figure 5–1.
Persons Receiving Any Government Noncash Transfer by Household Income and Age



Among the nonelderly, receipt of noncash government support was far more common among those with household incomes in the bottom three quintiles than among those with household incomes in the top two quintiles. Table 5-A illustrates a similar relationship between adjusted household income and noncash support.

While not surprising (most programs which provide noncash support are means-tested), this pattern also has important implications. If government-provided noncash support to the nonelderly is taken into account, the difference in the economic well-being of the economically disadvantaged and other persons is smaller than traditional household income and poverty statistics alone would suggest.

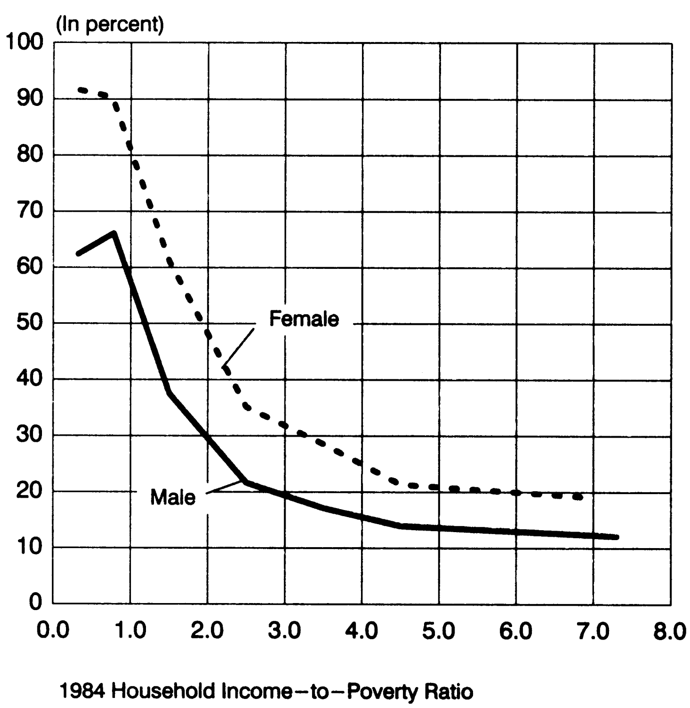
[1]The Census Bureau has long been aware of these issues with respect to the measurement of income and poverty. Since 1980 (in the case of poverty) and 1986 (in the case of income) the Census Bureau has produced reports showing the effect of noncash government-provided benefits. See U.S. Bureau of the Census, Technical Paper No. 50, *Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty*, U.S. Government Printing Office, Washington, DC, 1982, and U.S. Bureau of the Census, Current Population Reports, P-60, No. 164-RD-1, *Measuring the Effects of Benefits and Taxes on Income and Poverty: 1986*, U.S. Government Printing Office, Washington, DC, 1988.

Table 5-A. **Percentage of Persons Receiving Any Noncash Transfer in 1984 by Household Income-to-Poverty Ratio and Age of Person**

Income-to-poverty ratio	Less than 18	18 to 24 years	25 to 44 years	45 to 64 years	65 years and over
All	24.6	16.7	13.3	16.5	99.2
Less than 0.50	87.0	75.7	77.3	61.3	91.6
0.50 up to but not including 1.00	76.0	65.0	66.4	68.2	99.2
1.00 up to but not including 2.00	29.9	33.5	25.5	33.7	99.6
2.00 up to but not including 3.00	8.2	10.5	7.6	14.0	99.2
3.00 up to but not including 4.00	3.7	4.8	3.5	9.9	99.2
4.00 up to but not including 5.00	2.5	1.7	2.1	5.5	98.8
5.00 and over	0.8	1.2	1.2	4.6	98.6

Program Participation by Sex of Householder. When people with similar household incomes are compared, those living with female householders appeared more likely to receive noncash government transfers than those living with male householders. This was true at every reported household income level (adjusted or unadjusted using the poverty line). Figure 5-2 illustrates the relationship.

Figure 5–2.
Persons Participating in Any Noncash Government Program by Income–to–Poverty Ratio and Sex of Householder



Program Participation by Race. Blacks were more likely than Whites with similar household incomes to have received noncash government transfers in 1984. This was true no matter what the reported household income. It was also true when Blacks and Whites with similar adjusted household incomes less than three times the poverty line are compared (table 5-B)

Table 5-B. **Percentage of Persons Receiving Any Noncash Transfer in 1984 by Household Income-to-Poverty Ratio and Race**

Income-to-poverty ratio	Black	White
All	47.4	23.8
Less than 0.50	90.7	75.3
0.50 up to but not including 1.00	80.2	72.3
1.00 up to but not including 2.00	47.9	38.5
2.00 up to but not including 3.00	25.9	18.9
3.00 up to but not including 4.00	17.4	14.4
4.00 up to but not including 5.00	9.2	10.6
5.00 and over	10.4	10.3

Two Anomalies: Participation in Means-Tested Programs. Many public programs have been designed to provide support for the economically disadvantaged. Why, then, do we find that (1) some people who were identified in SIPP as having annual household incomes below the poverty line claim that they do not participate in means-tested programs, and (2) some people identified in SIPP with annual household incomes above the poverty line report that they do participate in means-tested programs? Table 5-C summarizes the data.

Table 5-C. **Percentage of Persons Participating in Any Means-Tested Program by 1984 Household Income-to-Poverty Ratio**

Income-to-poverty ratio	Persons
All	18.2
Less than 0.50	79.1
0.50 up to but not including 1.00	69.1
1.00 up to but not including 2.00	29.1
2.00 up to but not including 3.00	9.7
3.00 up to but not including 4.00	6.2
4.00 up to but not including 5.00	4.4
5.00 and over	2.3

Twenty-eight percent of those with household incomes below the poverty line claim that they did not participate in any means-tested program in 1984. Conversely, a similar proportion, 29 percent of those with household incomes between one and two times the poverty line, and 9.7 percent of those with household incomes between two and three times the poverty line claimed that they did participate in these same programs.

There are a number of factors which could have contributed to these results. Some of those who appear to be disadvantaged in terms of household income and poverty do not participate in government support programs. One possible explanation for this is that a stigma is associated with participation in welfare programs which discourages some who are eligible from participating in these programs. While this may be part of the explanation, we cannot use these data to evaluate the extent to which this is true.

Also, some people are not aware they are eligible for public programs. Some programs, on the other hand, have certain categorical requirements that limit participation even among those with limited economic resources (e.g., AFDC is limited to families with children). Another contributing factor is that eligibility for means-tested programs is based not only on income, but also on other household economic resources. Chapter 3 showed that some persons with relatively low household incomes in SIPP also reported substantial household wealth. Thus, household wealth may prevent persons who live in low-income households from qualifying for means-tested programs.

Another factor is that some people may not correctly identify which programs they participate in. Participants in means-tested programs are not always aware they are participating, especially where in-kind benefits, such as rent-subsidized housing, are concerned. And finally, public program administrators may collect better information about a person's income and wealth than do household surveys. To the extent that people underreport income and wealth in surveys, they may appear to be economically disadvantaged even when they are not.

How can people who do not appear to be economically disadvantaged participate in means-tested programs? First, some means-tested benefits are available to people with incomes above the poverty line. Food stamps, for example, are available to people with incomes as high as 180 percent of the poverty line, and many housing benefits are available to those with incomes as high as twice the poverty line.

Furthermore, eligibility is not always based on total household resources. A single mother living at her mother's house may be eligible for AFDC because her income is low even though combined household income is above the poverty line. There are data in SIPP which can be used to assess how important these differences between household and recipiency unit resources are in accounting for participation in means-tested programs by those who do not appear to be economically disadvantaged. We have not explored these data in this report.

It is also possible that some people misidentify the programs they participate in. Some who participate in Medicare (an entitlement program) may mistakenly report participating in Medicaid (a means-tested program). There may be similar confusion between the entitlement program Social Security's Old Age, Survivors, and Disability Insurance program (OASDI), and General Assistance, Supplemental Security Income (SSI), and AFDC (all means-tested programs). There are data available from SIPP which allow analysts to make some assessments about how important this consideration might be in explaining participation in means-tested programs by those with household incomes above the poverty line.

Some people live in households with annual incomes above the poverty line but they experience periods during the year when incomes drop below the poverty line. Chapter 2 showed that while 11.1 percent of the population lived in households with annual incomes below the poverty line, 25.2 percent of the population lived in households with money incomes which dipped below the poverty line for at least 1 month during 1984. The annual household poverty statistics identified fewer than half of those who experienced 1 or more months with household incomes below the poverty line in 1984. Many of those people who moved into or out of poverty during the year may well have been eligible for means-tested programs while they were poor.

Finally, a common explanation is that some people participate in welfare programs even when they are not eligible. While this may be one part of the explanation, there are no data in the SIPP which allow us to evaluate the extent to which this is true. Even if it is true, it seems unlikely that those who underreport their income and assets when they apply for support would then provide accurate information to a Census Bureau field representative, assurances about confidentiality notwithstanding.[2]

Who Appears to be Economically Disadvantaged? The magnitude of the impact of government-provided noncash benefits on assessments of economic well-being depends on two factors: the number of people affected and the value of the benefits received. This report attempts to estimate the first factor.[3] A substantial portion (30 percent) of the population surveyed in the 1984 SIPP was supported, at least in part, by government programs. Some of that support is already included in traditional measures of household income and poverty. However, 27 percent of the population participated in one or more government programs in 1984 which provided noncash support that is not reflected in the traditional household income and poverty statistics. Even without an estimate of the value of these programs to those who receive them, some conclusions are possible. Since most noncash programs are means-tested, it is not surprising that those with low household incomes were much more likely to receive this support than those with higher incomes. Taking account of those government-provided subsidies, the differences between

[2]See Christopher Jencks and Kathryn Edin, "The Real Welfare Problem", *The American Prospect,* Vol.1, No.1, 1990, for a discussion.
[3]See P-60, No. 169-RD, *op.cit.* for one set of estimates of the value of these government-provided benefits

those identified as economically disadvantaged and those who are not so identified will be smaller than statistics based on traditional measures of household income alone would suggest.[4]

However, participation in noncash programs is not limited to those who report low household incomes, and even among those who report similar incomes there are systematic differences in participation rates across demographic groups.

Specifically, the data presented in this chapter suggest that:

- The elderly had substantially higher participation rates in noncash programs than the nonelderly even when people with similar annual household incomes are compared.
- Those living with female householders had higher rates of participation in noncash programs than those living with male householders even when people with similar adjusted annual household incomes were compared.
- Blacks were somewhat more likely to participate in noncash programs than Whites even when Whites and Blacks with similar household incomes were compared.

These results suggest that comparisons of economic well-being based solely on traditional income-based measures may therefore be misleading: ignoring the role of government-provided noncash support will underestimate the resources of the elderly relative to the nonelderly, those living with female relative to male householders, and Blacks relative to Whites.

The data on participation in means-tested programs raise more questions than they answer, but the questions raised are sobering. If participation rates are taken as reliable indicators of economic hardship, they suggest that many identified as disadvantaged based on traditional household income and poverty statistics probably are not. Furthermore, many who are not identified as disadvantaged based on those same statistics may well be disadvantaged after all. The data considered here do not allow us to decide whether the income or the program participation data are better able to identify those who are economically disadvantaged. They do, however, highlight the question.

[4]The last chapter showed that many employment-tied forms of noncash income are more common among those reporting higher incomes than among those reporting lower incomes. This suggests the possibility that employment-tied and government-provided noncash income may have off-setting effects in the evaluation of group differences of economic well-being. Such an assessment cannot be made, however, without estimates of the value of these noncash benefits to those who receive them. The Census Bureau has produced estimates of the effects of government-provided benefits on the distribution of income and poverty (see P-60, No. 169-RD, *op.cit.)* which also includes employer-provided medical insurance coverage.