Poverty and Deep Poverty in California

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KEY FINDINGS

- In 2012, 21.8 percent of Californians were poor according to the California Poverty Measure (CPM), a rate that is statistically indistinguishable from the 2011 rate. The CPM rate for children is 24.9 percent.
- The CPM rates are especially high for those without a high school degree (53.2%), those with just a high school degree (33.7%), the unemployed (36.7%), Hispanics (31.7%), and immigrants (29.1%).
- The CPM deep poverty rate, which refers to families with income below half the poverty threshold, is 5.9 percent. The highest rates of CPM deep poverty are for the unemployed (13.8%) and those without a high school degree (13.5%).
- The poverty rate based on the Official Poverty Measure (OPM), 16.5 percent, is much lower than the CPM rate mainly because it fails to take California's high cost of living into account. The OPM deep poverty rate, 7.1 percent, is higher than the CPM rate mainly because it fails to take into account poverty-reducing programs that are available at the bottom of the income distribution.
- The poverty-reducing effects of government policies and programs are especially important for vulnerable subgroups. If key safety net programs were eliminated, CPM poverty rates would have been at least 20 percentage points higher, all else equal, for blacks, those with a high school education or less, and adults aged 65 and older.
- The most important poverty-reducing policy for the elderly is Social Security, whereas the most important poverty-reducing policies for children are refundable tax credits, CalWORKs, and CalFresh.
- The poverty rate for Los Angeles County, 26.1 percent, is the highest across nine broad regions in California. The deep poverty rate for Los Angeles County, 6.7 percent, is the second highest in the state.

The California Poverty Measure (CPM) is released annually to document the overall poverty rate, demographic differences in poverty, county and regional differences in poverty, and the effects of government policies and programs on poverty. The CPM was first released with 2011 data by a team of researchers from the Public Policy Institute of California and the Stanford Center on Poverty and Inequality.[1] It will continue to be released annually and with a reduced time lag as the CPM protocol comes to be regularized.

The CPM, which is closely modeled on the Supplemental Poverty Measure (SPM), addresses the many weaknesses of the Official Poverty Measure (OPM). The OPM uses an outdated food-based formula for poverty thresholds, does not adjust for geographic differences in the cost of living, and considers only pre-tax cash income in its measure of family resources.[2] The CPM, by contrast, sets poverty thresholds based on contemporary spending patterns on a core basket of necessities and adjusts those thresholds for geographic differences in the cost of housing. It also includes an expanded definition of family resources that includes post-tax income and in-kind benefits, and excludes necessary expenditures such as medical costs and work and child care expenses. The CPM additionally takes into account major changes in family structure (e.g., the rise in cohabitation) that affect who should be included in resource-sharing units for the purpose of measuring poverty.

Although the Census Bureau and the Bureau of Labor Statistics release a state SPM for California, it is based on three years of pooled data (given sample size constraints in the Current Population Survey), thus precluding annual sub-state esti-

mates. By contrast, the CPM is based on the American Community Survey, which is large enough to measure poverty annually and to do so at the sub-state level. The CPM also builds upon the SPM by taking into account (a) variation in housing costs across counties and by tenure (renter, owner with a mortgage, owner without a mortgage), (b) the large unauthorized immigrant population, and (c) California-specific safety net policies. Unlike the SPM, the CPM further adjusts for survey underreporting of key safety net programs, like the Supplemental Nutrition Assistance Program (known as CalFresh in California) and Temporary Assistance for Needy Families (known as CalWORKs in California). For full details on CPM construction, please refer to the technical appendices.[3]

How Much Poverty Is There?

It might be thought that California, sometimes characterized as the "land of plenty," would have a low poverty rate. Indeed, given that the median household income in California is 15 percent higher than the national median, one might reasonably suppose that Californians are relatively protected from poverty.[4]

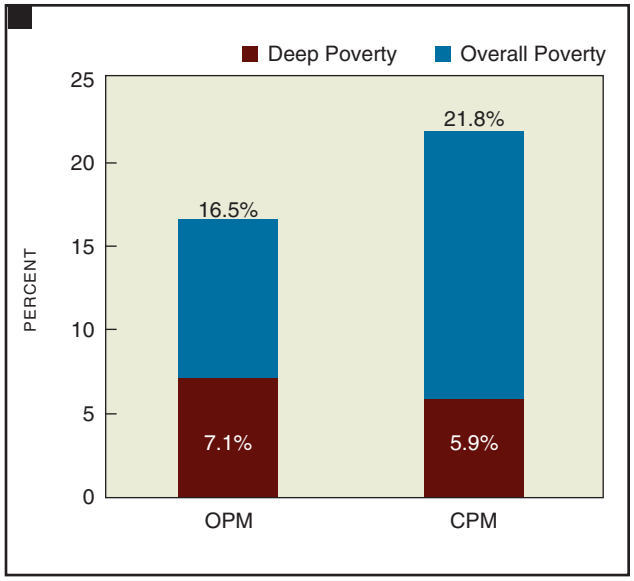
As shown in Figure 1, the CPM indicates otherwise. The CPM poverty rate for 2012, 21.8 percent, means that 8.1 million Californians were in poverty. This figure implies that the official measure, which stands at 16.5 percent for California in 2012, substantially underestimates the number of Californians who do not have the resources to meet their basic needs.

The CPM also shows that official statistics are misleading with respect to deep poverty. Under the CPM, 5.9 percent of Californians are in deep poverty, where this refers to families with incomes that are less than half of the poverty threshold. As Figure 1 indicates, a somewhat smaller proportion of Californians are in deep poverty under the CPM (5.9 percent) than under the OPM (7.1 percent).[5] The OPM is misleadingly high in this case because it does not count the noncash resources from many safety net programs that serve to lift Californians out of deep poverty.

Sources of Poverty in California

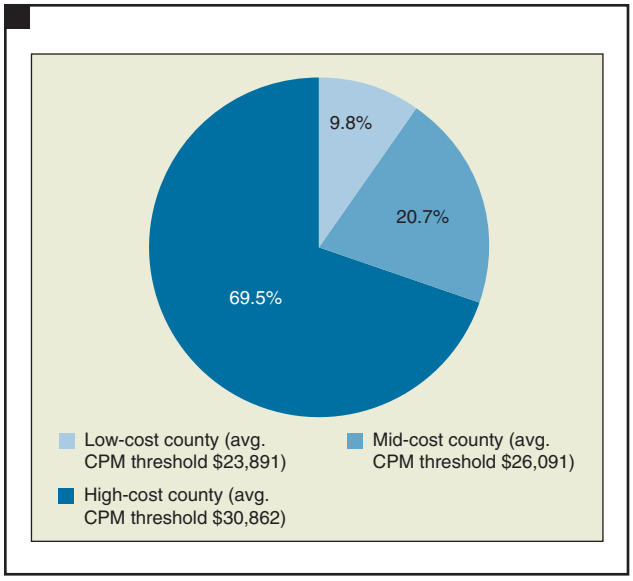
The overall poverty rate is higher under the CPM than the OPM. Why is this? The main reason is that, unlike the OPM, the CPM takes into account California's high cost of housing. As Figure 2 shows, approximately 70 percent of Californians live in "high-cost" counties,

FIGURE 1. Poverty and Deep Poverty in California Under the Official Poverty Measure (OPM) and the California Poverty Measure (CPM): 2012



Note: Both OPM and CPM poverty are calculated using the California sample of the 2012 ACS, excluding those in group quarters and certain college students (see technical appendices at www.inequality.com/cpm for details).

FIGURE 2. Proportion of Californians Living in Low-Cost, Mid-Cost, and High-Cost Counties: 2012



Note: Counties are partitioned into three groups based on the average CPM threshold for a two-adult, two-child household (weighted by the proportions of renters, mortgage holders, and owners without a mortgage). The official poverty threshold for a two-adult, two-child household is $23,283.

which are defined here as counties for which the average CPM poverty threshold for a four-person family (i.e., two adults and two children) is within the top third statewide, that is, $30,862 or more in 2012. This is a very high poverty threshold: It is $7,579 more than the OPM threshold for this same family type. And yet seven of ten Californians live in counties in which the threshold is at this level. Moreover, in some of California's most populous counties, housing costs drive the CPM poverty threshold still higher. In San Francisco, for example, the threshold for a family of four is more than $35,000 for renters and mortgage holders.

How Does Poverty Vary by Demographic Characteristics?

The overall CPM rate is very high, but of course some demographic groups face yet higher risks of poverty. We show CPM rates by gender, race and ethnicity, immigration status, and age in Figure 3, and by education, employment, and family structure in Figure 4.

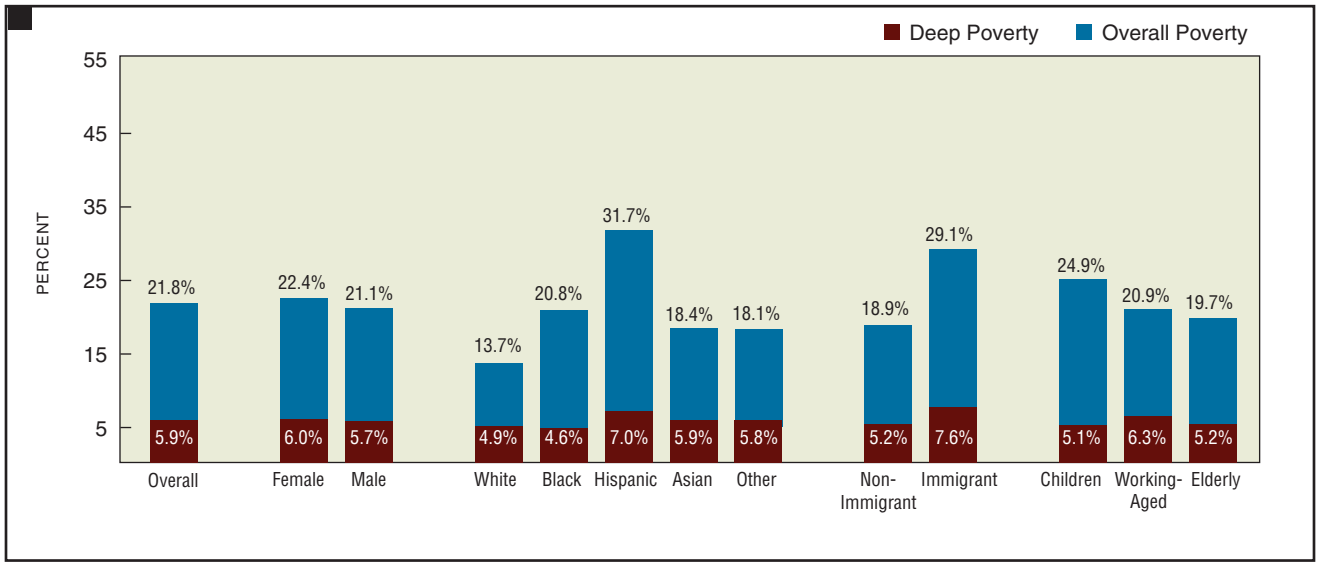
The most striking result of Figure 3 is that nearly a third of Hispanics (31.7%) are in poverty. The poverty rate for blacks (20.8%) is much lower; indeed, it's only barely higher than the rate for Asians (18.4%). The rate for Hispanics is especially high for many reasons, but it is especially important that (a) many Hispanics are immigrants and (b) immigrants have a much higher risk of poverty than non-immigrants (see Figure 3).

The most striking result of Figure 4 is the sharp education gradient in poverty. The rate for high school dropouts, 53.2 percent, is nearly six times higher than the rate for college graduates, 9.3 percent. The key role of employment is also clear: Of those working full-time and year-round, only 9.0 percent are in poverty, a rate that's approximately one-fourth that of the unemployed (36.7%). High poverty rates are also found among single parents, unmarried families with children, and unmarried people with no children.

How Do Government Safety Net Programs Affect Poverty?

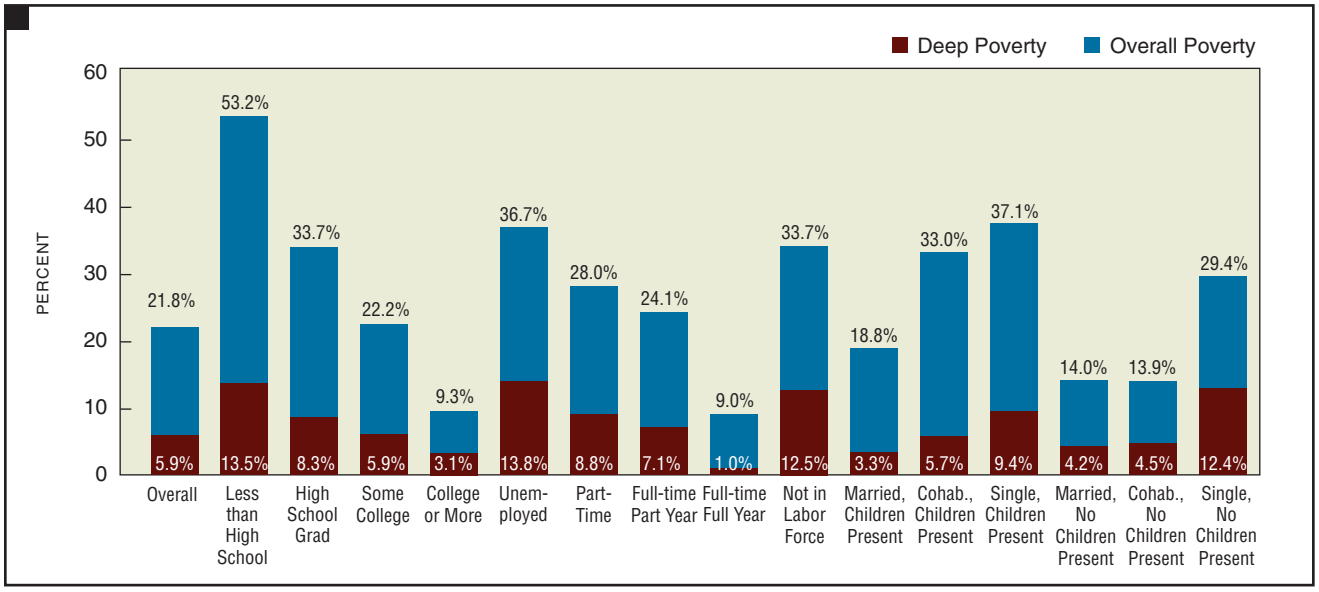
The main advantage of using the CPM, as compared with the OPM, is that it incorporates the poverty-reducing effects of all government programs, even those based on noncash transfers. This makes it possible to use the CPM to assess which government programs are doing the most poverty-reducing work.

FIGURE 3. CPM Poverty Rates by Gender, Race-Ethnicity, Immigration Status, and Age: 2012



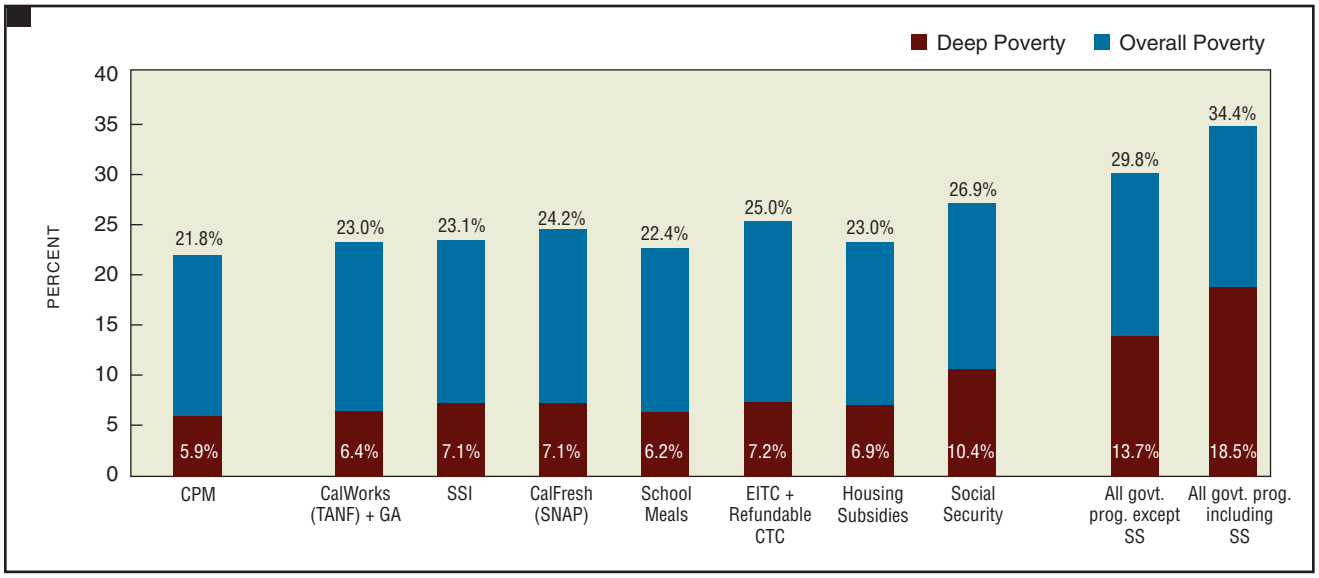
We do just this in Figure 5. It shows the extent to which CPM poverty increases when the benefits provided by each of the major government safety net programs are excluded from family resources. The biggest effect is, not surprisingly, that of Social Security: The CPM would increase from 21.8 percent to 26.9 percent if Social Security payments were not counted and all else remained the same. The second largest increase in poverty would come from excluding tax credits (e.g., the Earned Income Tax Credit), and the third largest

FIGURE 4. CPM Poverty Rates by Education, Employment, and Family Structure: 2012



Notes: Educational attainment represents the highest education attained by any individual in the poverty unit. Labor force participation is calculated at the individual level only for the working-age population (ages 18–64).

FIGURE 5. CPM Poverty Rates without the Safety Net: 2012



Note: Government programs include CalWORKs and General Assistance, SSI, CalFresh, school breakfast and lunch, EITC and CTC (refundable portions), housing subsidies, and Social Security. We do not consider LIHEAP or WIC, but these have only a very modest poverty-reducing effect in the SPM (see Short 2014). Because CPM rates are adjusted for underreporting of SNAP (CalFresh) and TANF (CalWORKs), they register a larger poverty-reducing effect than does the SPM, which does not adjust for underreporting.

increase would come from excluding CalFresh. The effect of excluding all programs is even more dramatic: The CPM would increase to 29.8 percent if all programs except Social Security were not counted, and it would soar to 34.4 percent if all programs, including Social Security, were not counted.

The impact of safety net programs on deep poverty rates is equally noteworthy. If all safety net programs were not counted, more than half of the poor would be in deep poverty (whereas, by contrast, less than a third of the poor population is in deep poverty with safety net resources included).

The foregoing results, as important as they are, only speak to the mechanical effects of safety net resources on family budgets. We have made no attempt here to model how families might change their behavior in response to changes in the availability of safety net programs. For example, some changes in the safety net (e.g., eliminating Social Security) might induce families to seek employment or increase work hours, while others (e.g., eliminating EITC) might conversely induce them to reduce their labor supply.

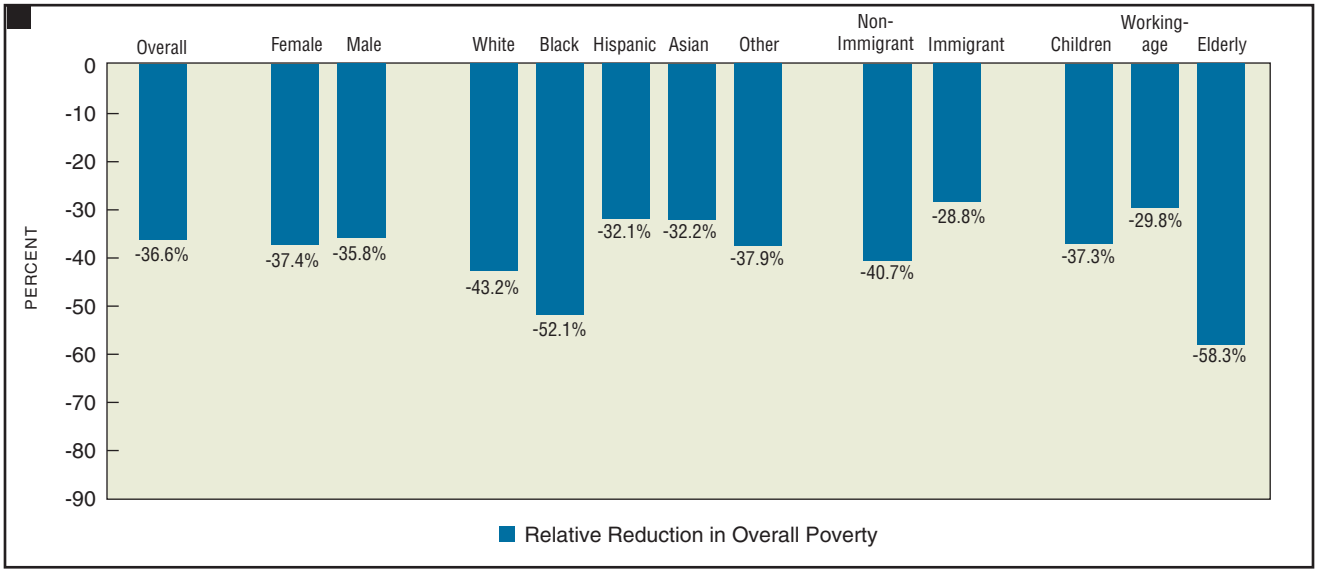
Which Groups Benefit Most from the Safety Net?

We next examine how the aggregate impact of government programs differs by demographic and employment characteristics. The first two figures for this section (Figures 6 and 7) pertain to the reduction in overall and deep poverty for key demographic categories, and the second two figures (Figures 8 and 9) pertain to the reduction in overall and deep poverty for key labor market and family structure categories.

The poverty-reducing effects of government programs are especially prominent for more disadvantaged groups that are thus more likely to be eligible for government programs. As shown in Figures 6 and 8, the largest reductions in overall poverty occur among the elderly, blacks, those with a high school education or less, and those who are not working (either unemployed or not in the labor force). These poverty-reducing effects are sometimes very substantial: For example, the poverty rate for blacks is trimmed by more than half (a 52.1% reduction), as is the poverty rate for the elderly (a 58.3% reduction).

The effects of the safety net on deep poverty are even

FIGURE 6. The Effect of the Safety Net on Overall Poverty by Gender, Age, Race-Ethnicity, and Immigration Status: 2012



Note: Government programs include CalWORKs and General Assistance, SSI, CalFresh, school breakfast and lunch, EITC and CTC (refundable portions), housing subsidies, and Social Security.

more prominent for these groups. The deep poverty rate for blacks and the elderly is reduced by over 80 percent, and it is reduced substantially for many other groups as well. These results reveal that the safety net is *very* successful in reducing—albeit not eliminating—the most extreme forms of poverty. Although California has a very high poverty rate even after the safety net does its work, the results in Figures 6–9 imply that, for many groups, the rate would be catastrophically high in the absence of the safety net.

It is nonetheless important to remember that not all groups benefit in the same ways from government programs. For example, the elderly are assisted mainly by Social Security, while children benefit mainly from other programs, especially refundable tax credits, CalWORKs, and CalFresh.

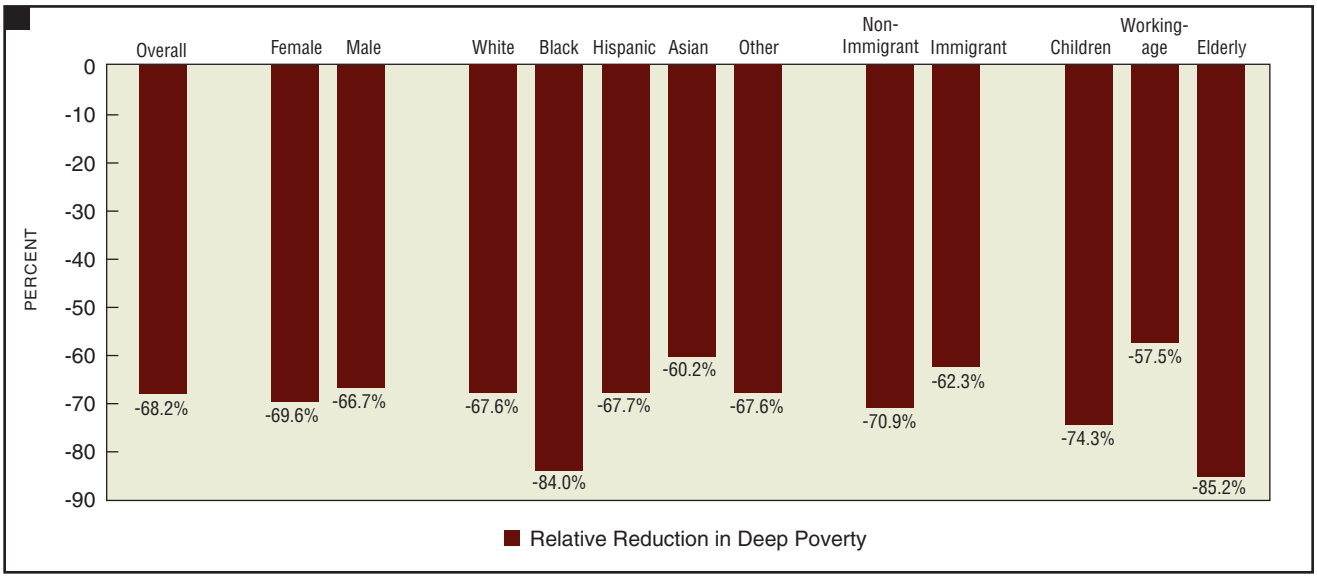
How Do Poverty Rates Vary Across California?

We next ask whether there is substantial variability in CPM poverty rates across the state. This variability may be driven by county-level differences in demographics, earnings, receipt of government benefits, and housing costs.

We proceed by examining CPM poverty rates within nine broad regions of the state. As shown in Figure 10, Los Angeles County has the highest poverty rate, with more than one in four residents living below the CPM threshold. Because Los Angeles County has a large population, and because its underlying poverty rate is so high, it has more of California's poor (over 650,000) than any other region in California.

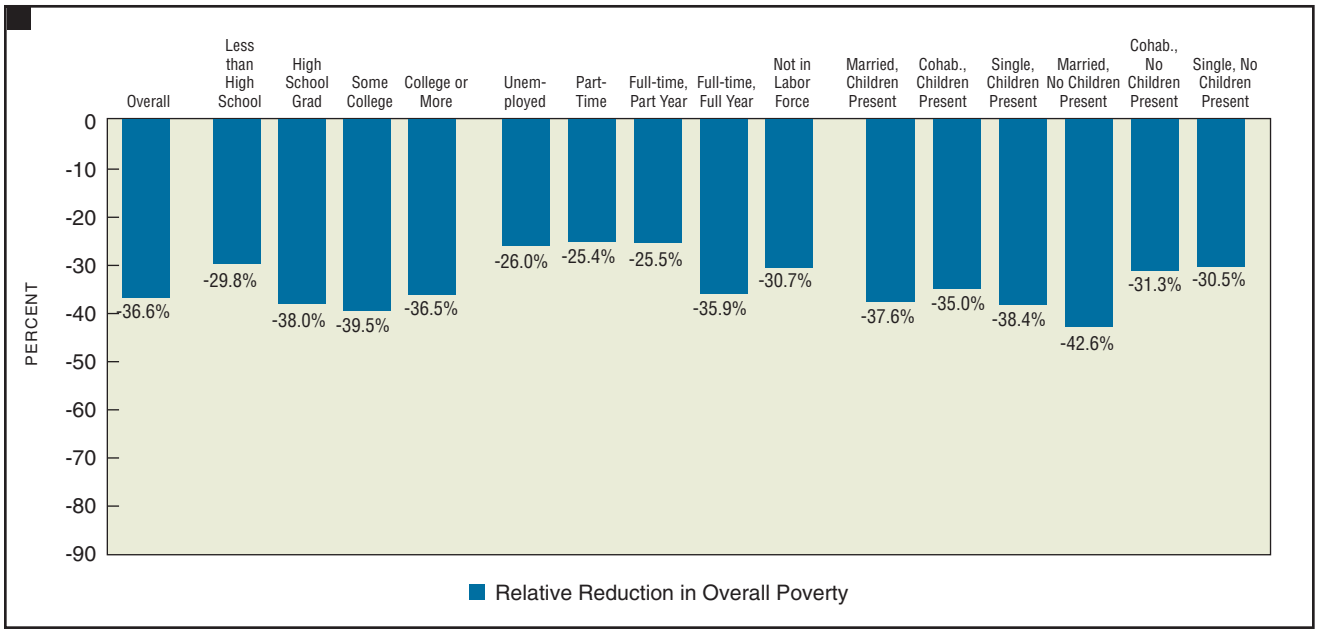
The deep poverty rate for Los Angeles is also very high (6.7%). There is, however, much less variability in deep poverty than in overall poverty. Although the highest rates of deep poverty are in Los Angeles County, San Diego County, Orange County, and the northernmost counties of the state, the rates for these regions are at most 1.7 percentage points higher than the rate for the lowest region.

FIGURE 7. The Effect of the Safety Net on Deep Poverty by Gender, Age, Race-Ethnicity, and Immigration Status: 2012



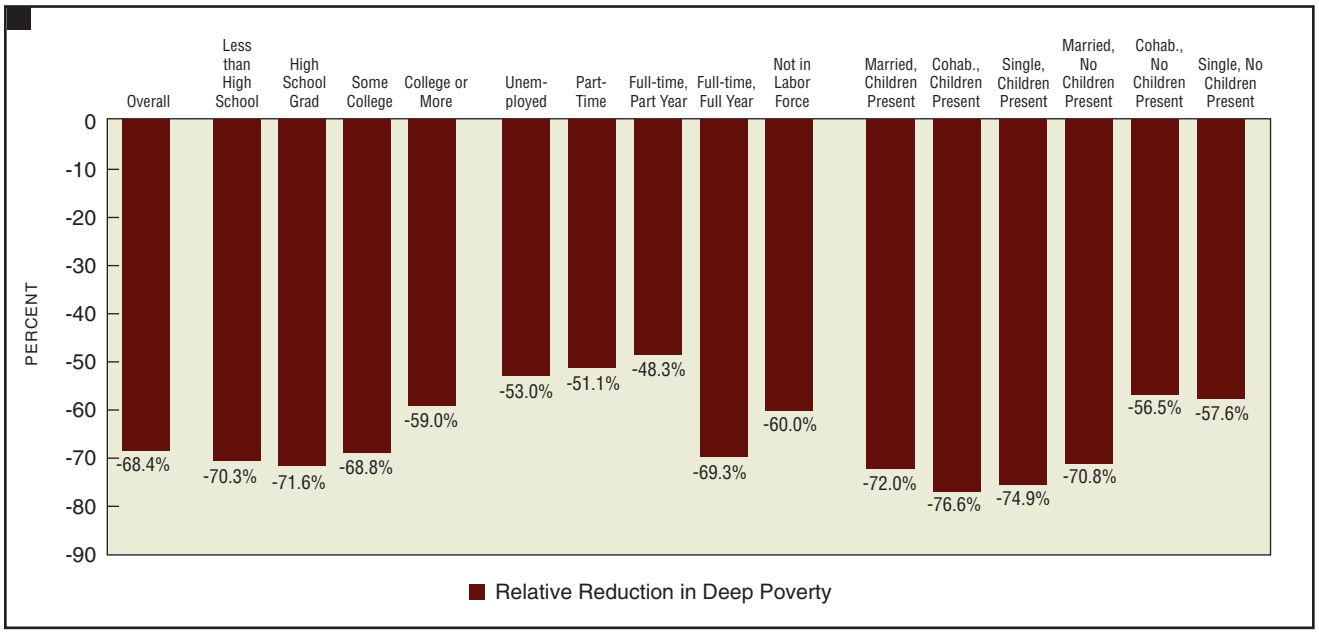
Note: Government programs include CalWORKs and General Assistance, SSI, CalFresh, school breakfast and lunch, EITC and CTC (refundable portions), housing subsidies, and Social Security.

FIGURE 8. The Effect of the Safety Net on Overall Poverty by Education, Employment, and Family Structure: 2012



Notes: Government programs include CalWORKs and General Assistance, SSI, CalFresh, school breakfast and lunch, EITC and CTC (refundable portions), housing subsidies, and Social Security. Educational attainment reflects the highest education attained by any individual in the poverty unit. Labor force participation is calculated at the individual level only for the working-age population (aged 18–64).

FIGURE 9. The Effect of the Safety Net on Deep Poverty by Education, Employment, and Family Structure: 2012



Notes: Government programs include CalWORKs and General Assistance, SSI, CalFresh, school breakfast and lunch, EITC and CTC (refundable portions), housing subsidies, and Social Security. Educational attainment reflects the highest education attained by any individual in the poverty unit. Labor force participation is calculated at the individual level only for the working-age population (aged 18–64).

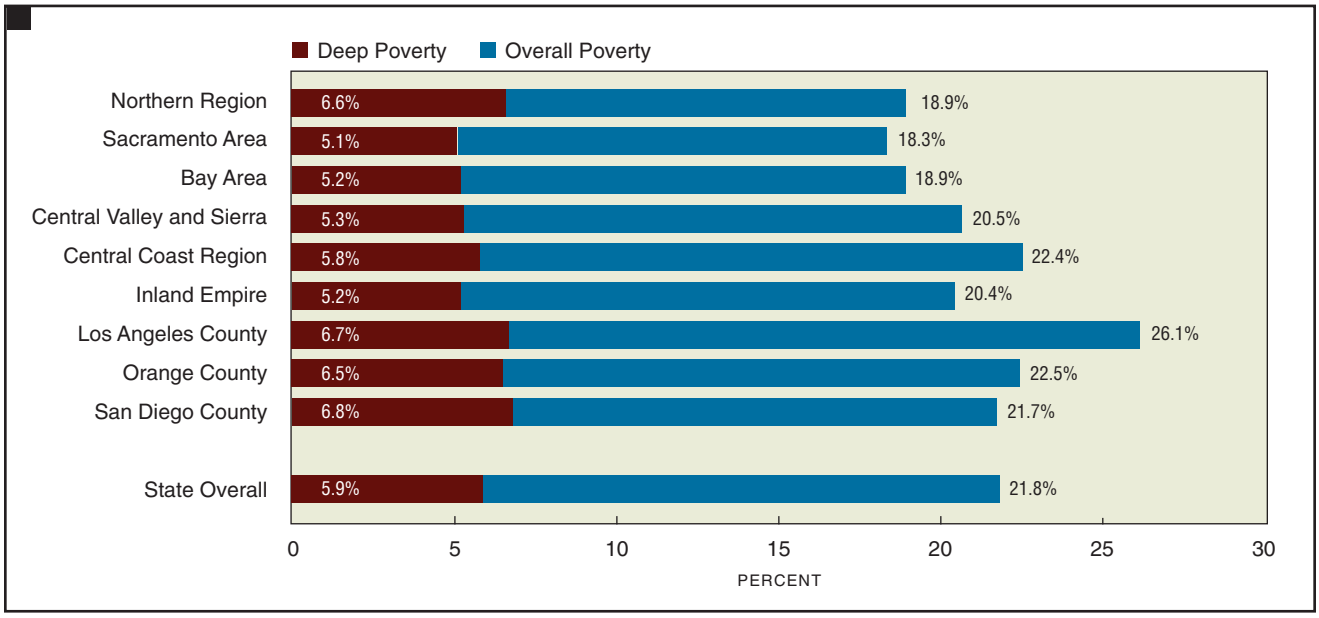
We conclude this report by examining regional differences in the poverty-reducing effects of the safety net (see Figures 11 and 12). The most dramatic reductions in both overall and deep poverty are in the northern region, the Central Valley and Sierra region, the Sacramento area, and the Inland Empire. By contrast, residents of Los Angeles County do not benefit as much, which explains in part why poverty rates are so high in Los Angeles County. The reductions are also relatively small in the Bay Area, Orange County, and San Diego County, some of the most prosperous and highest-cost areas of the state. The reductions are likely smaller here because, within more prosperous regions, those in CPM poverty may have somewhat higher incomes that may more often make them ineligible for safety net benefits. The higher cost of living in these areas may also make it more difficult for safety net benefits to lift family resources above the poverty threshold.

Discussion

The CPM is the best available measure of whether California's families can meet their basic needs. It improves upon the OPM because it incorporates noncash benefits and adjusts for differences in the cost of living. And it builds upon the SPM by better representing California's large unauthorized immigrant population, incorporating adjustments and corrections for underreporting of key safety net benefits, and accounting for some California-specific policies that affect housing costs and safety net benefit levels.

The results reported here reveal that the 2012 poverty rate remains very high and is in fact statistically indistinguishable from the 2011 rate. The OPM rate is much lower than the CPM rate mainly because it fails to take California's high cost of living into account.

FIGURE 10. CPM Poverty Rates by Region: 2012



Note: Northern Region = Butte, Colusa, Del Norte, Glenn, Humboldt, Lake, Lassen, Mendocino, Modoc, Nevada, Plumas, Shasta, Sierra, Siskiyou, Tehama, Trinity Counties
Sacramento Region = El Dorado, Placer, Sacramento, Sutter, Yolo, Yuba Counties
Bay Area = Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano, Sonoma Counties
Central Valley and Sierra Region = Alpine, Amador, Calaveras, Fresno, Inyo, Kern, Kings, Madera, Mariposa, Merced, Mono, San Joaquin, Stanislaus, Tulare, Tuolumne Counties
Central Coast Region = Monterey, San Benito, San Luis Obispo, Santa Barbara, Ventura Counties
Inland Empire = Imperial, Riverside, San Bernardino Counties
California's three largest counties—Los Angeles, Orange, San Diego—shown separately

FIGURE 11. The Effect of the Safety Net on Overall Poverty by Region: 2012

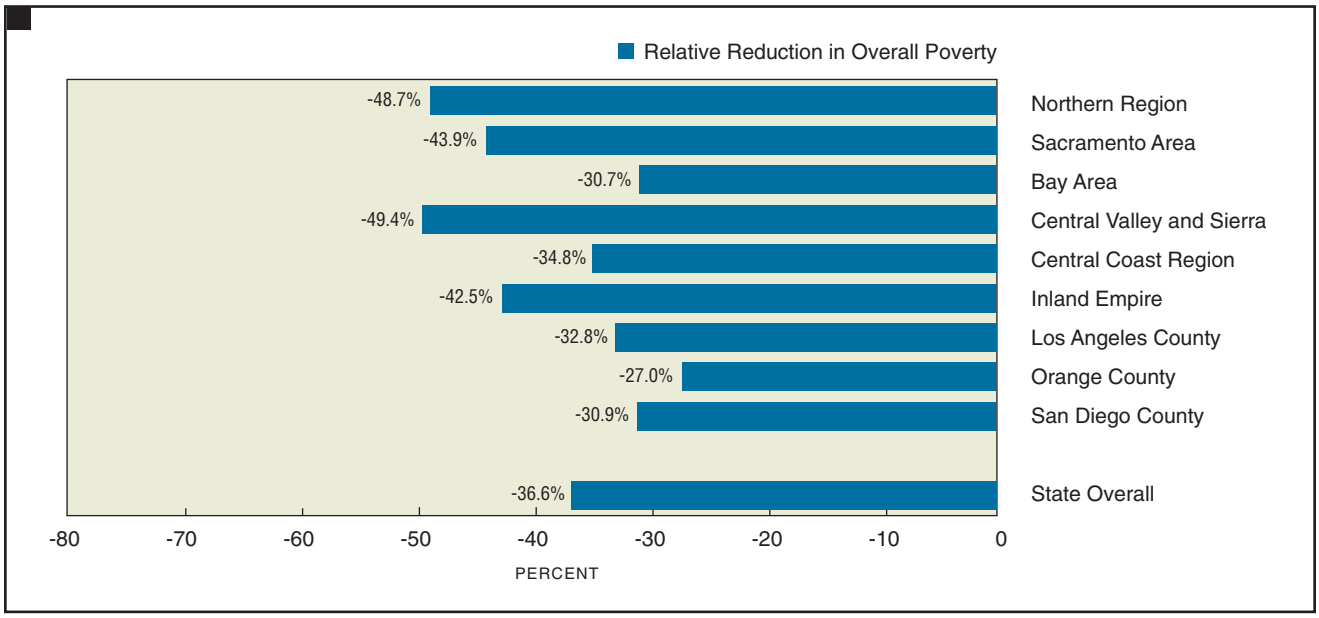
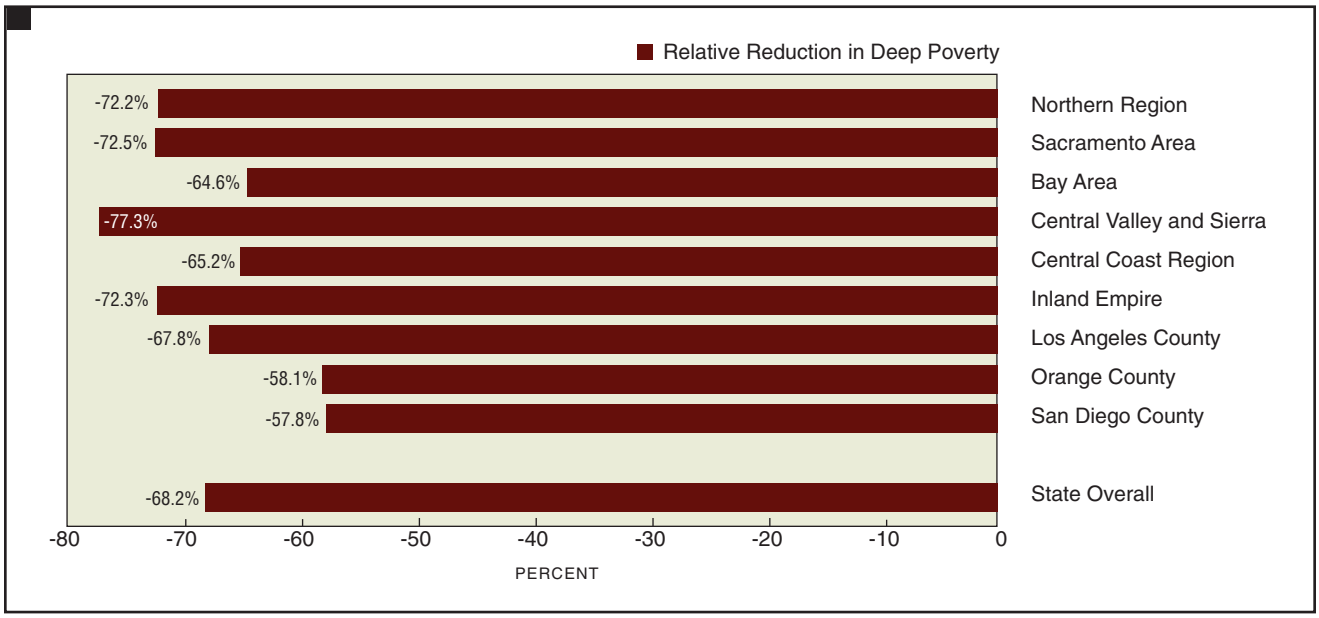


FIGURE 12. The Effect of the Safety Net on Deep Poverty by Region: 2012



The CPM rate is especially high for those without a high school degree (53.2%), those with just a high school degree (33.7%), the unemployed (36.7%), Hispanics (31.7%), and immigrants (29.1%). It is also especially high in Los Angeles County (26.1%).

We have further reported that, as high as the 2012 CPM is, it would be far higher if safety net benefits were not counted. Without counting such benefits, the CPM would increase from 21.8 percent to 34.4 percent, implying that these benefits play an important role in protecting many Californians.

The potential of the CPM as a tool for research and policy analysis has not been fully realized. It could be used, for example, to analyze not just the effects of current government programs on poverty rates but also the effects of potential future changes to these programs. These analyses could be used to sort out which policies would best assist low-income families and individuals, how their impact would differ across demographic groups, and which regions of California would be most affected. ■

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Endnotes

1. Bohn, Sarah, Danielson, Caroline, Levin, Matt, Mattingly, Marybeth, & Wimer, Christopher (2013). The California Poverty Measure: A New Look at the Social Safety Net. Public Policy Institute of California. Wimer, Christopher, Mattingly, Marybeth, Levin, Matt, Danielson, Caroline, & Bohn, Sarah (2013). The California Poverty Measure: A Portrait of Poverty within California Counties and Demographic Groups. Stanford Center on Poverty and Inequality.

2. See Short, Kathleen (2014). The Supplemental Poverty Measure: 2013. Current Population Reports, P60–251, U.S. Census Bureau.

3. See www.inequality.com/cpm.

4. When averaged from 2009 to 2013, median household income in California is $61,094, compared with $53,046 for the United States as a whole. See http://quickfacts.census.gov/qfd/states/06000.html.

5. All data presented derive from the authors' calculations using California ACS data for 2012, downloaded from the IPUMS website. Ruggles, Steven, Alexander, J. Trent, Genadek, Katie, Goeken, Ronald, Schroeder, Matthew B., & Sobek, Matthew (2010). Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database]. Minneapolis: University of Minnesota. Imputations were derived from various data sources, including the Current Population Survey, as described in the technical appendices (see www.inequality.com/cpm). All OPM estimates are based on our analyses of ACS data downloaded from IPUMS using the same poverty universe as the CPM, which takes into account major changes in family structure (e.g., the rise in cohabitation) that affect who should be included in resource-sharing units for the purpose of measuring poverty. The resulting universe differs somewhat from the OPM universe in Census Bureau official poverty figures.

The Stanford Center on Poverty and Inequality

The Stanford Center on Poverty and Inequality (CPI) monitors and publicizes trends in poverty and inequality, publishes the country's leading magazine on poverty and inequality, supports research on the causes of poverty and inequality, and examines the effects of public policy on poverty and inequality.

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