United States Government Accountability Office
Washington, DC 20548

November 10, 2009

The Honorable Jeff Bingaman
Chairman
Lisa Murkowski
Ranking Member
Committee on Energy and Natural Resources
United States Senate

The Honorable Madeleine Z. Bordallo
Chairwoman
Henry E. Brown, Jr.
Ranking Member
Subcommittee on Insular Affairs, Oceans and Wildlife
Committee on Natural Resources
House of Representatives

Subject: *Poverty Determination in U.S. Insular Areas*

Owing to high levels of poverty, American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), Guam, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands (USVI) rely heavily on need-based federal programs to provide basic services.[1] Two federal agencies publish measures used by some federal programs to determine poverty status and allocate need-based assistance: the Census Bureau (Census) publishes *poverty thresholds*—dollar-value benchmarks for determining poverty status—and the Department of Health and Human Services (HHS) provides *poverty guidelines*, which are derived from the poverty thresholds. The approaches used to determine these poverty measures affect, respectively, poverty population statistics and income eligibility of individuals and families for certain need-based federal assistance. The poverty thresholds apply nationwide and in the insular areas, with no geographic variation, while separate poverty guidelines for Alaska and Hawaii, but not for the insular areas, have been provided since 1970.

[1]According to the U.S. Census Bureau (Census), in 1999, the percentage of individuals in poverty ranged from 23 in Guam—nearly twice as high as the continental U.S. poverty rate of 12 percent—to 61 in American Samoa (see encl. II). For more information about reliance on federal programs in American Samoa, the CNMI, Guam, and the USVI, see GAO, *U.S. Insular Areas: Economic, Fiscal, and Financial Accountability Challenges*, GAO-07-119 (Washington, D.C.: Dec. 12, 2006).

In response to your request, we (1) examined how the Census poverty thresholds and HHS poverty guidelines are determined for the insular areas. In addition, we (2) considered the possibility of providing poverty thresholds and guidelines specific to the insular areas and identified the implications of extending to the insular areas the approach originally used to determine the Alaska and Hawaii guidelines. (We also presented this information in a recent briefing to congressional committee staff; see encl. I for an updated version of the briefing slides.)

To address these objectives, we reviewed relevant literature on poverty determination in the United States and the insular areas and interviewed current and former agency officials. We studied the methods that were used to develop the Census poverty thresholds for the 50 states and Washington, D.C., and the HHS poverty guidelines for the contiguous states and Washington, D.C. We also reviewed the reasoning applied in 1970 in establishing separate poverty guidelines for Alaska and Hawaii. We considered this approach because these are the only poverty guidelines that have been established specific to any geographic areas. The Alaska and Hawaii poverty guidelines are based on the cost-of-living differential between these two locations and Washington, D.C., as applied by the Civil Service Commission (CSC)—a predecessor agency to the Office of Personnel Management (OPM)—in making cost-of-living pay adjustments (COLA) for federal white-collar employees in Alaska, Hawaii, the CNMI, Guam, Puerto Rico, and USVI.[2] These adjustments are known as nonforeign area COLAs and are in the process of being phased out and replaced by locality pay.[3] We conducted our work from January to November 2009 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. This framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this report.

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[2]This reasoning does not take into account any differences in consumption patterns between federal employees and insular area poor populations. In addition, the OPM nonforeign area cost-of-living allowances for federal employees are limited by statute to 25 percent of basic pay.

[3]The U.S. government's nonforeign area COLAs are adjustments to basic pay for federal white-collar workers based on differences in living costs between Alaska, Hawaii, and the insular areas (Guam and the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands) and Washington, D.C.; OPM does not classify American Samoa as a nonforeign COLA area. To set the nonforeign area COLA rates, OPM surveys the prices of more than 300 items, including goods and services, housing, transportation, and miscellaneous expenses, in each of the areas and in the Washington, D.C., metropolitan area. Under Pub. Law No. 111-82, National Defense Authorization Act for Fiscal Year 2010, Oct. 29, 2009, the nonforeign COLA will be phased out and locality pay will be phased in over a 3-year period starting Jan. 1, 2010. The legislation also freezes the COLA rates that are in effect on the day of enactment of the act. The nonforeign area COLAs are a different adjustment than annual inflation adjustments (also commonly known as COLAs). The nonforeign area COLAs also differ from federal locality pay—that is, comparability payments in addition to basic pay, with the amount of locality pay based on differences between federal and private sector pay rates for particular sets of jobs within particular pay areas. In contrast to locality pay, nonforeign COLAs are not federally taxed and are not considered basic pay in determining an employee's retirement benefits, life insurance, or premium pay.

Background

Census poverty thresholds. The poverty thresholds were established in the 1960s as dollar-value benchmarks for measuring poverty:[4] if a family's income is less than the assigned threshold, the family and each of its members is considered to be in poverty.[5] Since 1968, Census has annually published the thresholds for use in generating statistics such as national, regional, and state estimates of Americans in poverty; in 1969, the Bureau of the Budget (the predecessor office to the Office of Management and Budget) issued a directive designating the thresholds published by Census as the federal government's official definition of poverty for statistical purposes.[6] Some federal programs use such statistics in fund-distribution formulas involving poverty to distribute program funds among states and other jurisdictions. The thresholds, which vary by family size and age group,[7] apply throughout the 50 states and Washington, D.C., with no geographic variation. The thresholds for the base year 1963 were based on the January 1964 dollar costs of the U.S. Department of Agriculture's (USDA) Economy Food Plan for families of different sizes, multiplied by a factor of three to reflect—based on the 1955 Household Food Consumption Survey—the share of food in total expenditures. Census updates the thresholds for inflation annually, using the Bureau of Labor Statistics' Consumer Price Index (CPI).[8] Although the methodology used to determine the thresholds has been subject to debate—for example, regarding whether the thresholds should be adjusted for geographic variations in cost of living—it has remained largely unchanged, except for minor technical adjustments in 1969 and 1981.[9]

HHS poverty guidelines. The poverty guidelines—a simplified version of the Census poverty thresholds—were also established in the 1960s and are used by certain federal programs, such as Job Corps and Head Start, in determining the income eligibility of

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[4]The original thresholds were developed in 1963-1964 by Mollie Orshansky, an economist working for the Social Security Administration (SSA). Orshansky used somewhat different procedures to calculate thresholds for one- and two-person units, to allow for small families' relatively larger fixed costs.

[5]In measuring poverty, Census considers all before-tax cash income, except capital gains, and excludes all noncash benefits, such as food stamps.

[6]Office of Management and Budget, *Statistical Policy Directive No. 14: Definition of Poverty for Statistical Purposes* (Washington, D.C., 1978).

[7]For a one-person family unit, Census publishes two separate thresholds for unrelated individuals younger than 65 years and 65 years or older. For a two-person family unit, Census publishes four thresholds based on age: (1) both individuals are younger than 65 years; (2) both individuals are 65 or older; (3) one individual is younger than 65 years and the other is a related child younger than 18 years; and (4) one individual is 65 years or older and the other is a related child younger than 18 years. For a family unit of three or more people, Census publishes 42 thresholds that vary by family size and the number of related children who are younger than 18 years.

[8]See http://www.census.gov/hhes/www/poverty/povdef.html.

[9]A federal interagency committee met in 1980-1981 to revise the poverty definition. These modifications affected the number of poor and poverty rate only slightly and were documented in P60-133, Characteristics of the Population Below the Poverty Level: 1980. See http://www.census.gov/hhes/www/povmeas/ombdir14.html.

individuals and families for need-based assistance.[10] Like the thresholds, the guidelines reflect variations in family size but, unlike the thresholds, do not reflect variations in the age group of the family members. Each year, HHS issues guidelines for the 48 contiguous states and Washington, D.C.[11] Since 1970, separate guidelines have been issued for Alaska and Hawaii that are higher than the national guidelines, based on the federal government's nonforeign area COLAs in 1970 for federal employees' salaries in those states.[12]

Census Uses the Same Poverty Thresholds for the Insular Areas as for the States, but HHS Does Not Issue Poverty Guidelines for the Insular Areas

Census applies the same thresholds for the insular areas as it does for the 50 states, without adjustment for geographic variations in cost of living. The thresholds constructed in the early 1960s did not include data specific to the insular areas; the two data sources for the thresholds, the 1955 Household Food Consumption Survey and the January 1964 cost of the Economy Food Plan, did not cover these areas. In addition, the Bureau of Labor Statistics' CPI, which Census uses in adjusting the national thresholds for inflation each year, does not cover the insular areas.[13]

Although HHS issues poverty guidelines for the contiguous states and Washington, D.C., as well as separate guidelines for Alaska and Hawaii, HHS has not issued any guidelines for the insular areas. According to HHS, in cases in which a federal program using the poverty guidelines serves any of the insular areas, the federal office that administers the program is generally responsible for deciding whether to use the contiguous-states-and-D.C. guidelines for those jurisdictions or follow some other procedure.[14]

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[10]According to HHS, a number of federal programs use the poverty guidelines, or percentage multiples of the guidelines, as an eligibility criterion, while others do not. Agencies that use the guidelines as a criterion compare them with varying types of income (e.g., before tax or after tax, gross or net) to determine eligibility. For more detailed information about federal programs that use the guidelines for this purpose, see Congressional Research Service, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002-FY2004*, Order Code RL33340 (Washington, D.C., Library of Congress, 2006).

[11]HHS updates the poverty guidelines at least annually as required by 42 U.S.C. 9902(2) and publishes the guidelines in the *Federal Register*.

[12]In 1970, the Office of Economic Opportunity instituted separate poverty guidelines for Alaska and Hawaii that are higher than the continental U.S. (48-state) guidelines—respectively, 25 percent and 15 percent higher than the national guidelines—in view of substantially higher costs of living in those states (see *Federal Register*, vol. 35, no. 70, April 10, 1970, p. 5948). The percentage adjustment of the poverty guidelines has remained constant since 1970.

[13]The Bureau of Labor Statistics does not collect data to construct CPIs specific to the insular areas. In addition, the bureau does not collect data from the insular areas to include in the national CPI calculation.

[14]See "Annual Update of the HHS Poverty Guidelines," *Federal Register*, vol. 73, no. 15, January 23, 2008, p. 3972.

Lack of Data Prevents Construction of Poverty Thresholds for the Insular Areas, but Poverty Guidelines Could Be Constructed for These Areas

Census poverty thresholds specific to the insular areas cannot be constructed from available data. Because Census lacks certain insular area information—on the 1955 share of income spent on food, the cost of the January 1964 Economy Food Plan, and a record of CPIs for the insular areas—inflation-adjusted poverty thresholds for the insular areas cannot be constructed with the methodology used to construct the original thresholds.[15] If these data were available, it is unclear whether the new insular area thresholds would be higher or lower than the national thresholds. However, an HHS official told us that applying the methodology used for the original thresholds to the insular areas would most likely produce thresholds lower than the national thresholds, owing to the higher share of food in insular areas' total family expenditures (HHS also made this observation in its written comments regarding a draft of this report; see encl. III). Increases or decreases in the Census thresholds for the insular areas could, by raising or lowering estimates of the incidence of poverty, have implications for federal programs that use fund-distribution formulas involving poverty.

HHS poverty guidelines specific to the insular areas, reflecting geographic differences in the cost of living, could be constructed by applying the rationale used for Alaska and Hawaii in 1970.[16] Using this approach, based on OPM's nonforeign area COLAs, would produce guidelines for the CNMI, Guam, and USVI that are 25 percent higher, and for Puerto Rico 14 percent higher, than the guidelines for the contiguous states and Washington, D.C. Because no nonforeign area COLA has been defined for American Samoa, this approach could not be used to compute guidelines for that area. (See encl. I, table 1, for indexes derived from the nonforeign area COLAs for Alaska, Hawaii, and the insular areas.) This approach would not take into account any differences in consumption patterns between federal employees and insular area poor populations.[17]

The implications of setting higher HHS poverty guidelines for the insular areas vary, depending on the design of the federal program and the program's reliance on the guidelines.

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[15]CPIs have been computed periodically for the insular areas by other sources; however, these CPIs cannot be used to construct inflation-adjusted thresholds for the insular areas because no 1964 insular area thresholds are available for use as baselines.

[16]The adjustment factors for Alaska and Hawaii guidelines were set by the Office of Economic Opportunity in 1970; while current COLAs could be used to update and adjust the level of those guidelines on an annual basis, the guidelines have not been updated with more recent cost-of-living data. We considered the approach used in constructing poverty guidelines for Alaska and Hawaii because these are the only poverty guidelines that have been established specific to any geographic areas; we did not examine the universe of possible alternative approaches to defining poverty guidelines for the insular areas.

[17]Likewise, the method initially used to establish the guidelines in Alaska and Hawaii does not take into account any differences in consumption patterns between Alaska and Hawaii federal employees and the poor populations in these states.

- Higher HHS guidelines could affect federal programs that distribute need-based assistance directly to families and individuals in the insular areas, such as the Department of Agriculture's National School Lunch Program and Supplemental Nutrition Assistance Program (formerly known as the Food Stamp Program). However, we did not examine the potential impact on individual income eligibility or the cost effects that might result from extending the approach used for providing poverty guidelines for Alaska and Hawaii to the insular areas.

- Higher HHS guidelines would not affect programs that use fund-distribution formulas for allocating funds to the insular areas as lump sums, such as HHS's Maternal and Child Health Block Grant, Community Service Block Grant, Social Services Block Grant, and Childcare and Development Fund.[18] However, higher guidelines could affect such programs' distribution of any funds to beneficiaries, if those funds are distributed to families and individuals whose income eligibility is based on the guidelines.

- Higher HHS guidelines also would not affect programs that cap federal spending in the insular areas, such as Medicaid, which is subject to annual funding limits.[19] However, if an insular area bases the eligibility of families and individuals for such programs on HHS poverty guidelines, then higher guidelines could affect the area's use of capped federal funds—for example, by increasing the number of people who are eligible for the programs.

Agency Comments and Our Evaluation

HHS and Census provided written comments regarding a draft of this report, which are presented with our responses in enclosures III and IV, respectively. HHS also provided technical comments, which we incorporated as appropriate. Following are summaries of HHS's and Census's written comments and our responses.

HHS's written comments address three main points related to our report.

- HHS suggests that OPM's nonforeign area COLAs are of insufficient statistical quality to use as the basis for adjusting the poverty guidelines for geographic cost-of-living differences. Citing as evidence three studies that consider alternative strategies for measuring poverty in the United States, HHS observes that none of

[18]Some programs that use formulas to distribute funds to the insular areas base these allocations on total population size rather than on poverty statistics.

[19]For details on how the annual limits are established, see GAO, *Medicaid and CHIP: Opportunities Exist to Improve U.S. Insular Area Demographic Data That Could Be Used to Help Determine Federal Funding*, GAO-09-558R (Washington, D.C.: June 30, 2009).

these studies refer to the nonforeign area COLAs as a possible data source.[20] However, as we note in our response to HHS's comments in enclosure III, all three studies are focused on poverty measurement nationwide and hence could not have considered the nonforeign area COLAs as a data source, because these COLAs do not cover the 48 contiguous states.

HHS also states that it does not believe that it would be appropriate to use the current OPM nonforeign area COLA data to adjust the poverty guidelines for the insular areas. We considered these data because they were used in 1970 to construct the Alaska and Hawaii poverty guidelines and because these are the only poverty guidelines that have been established specific to any geographic areas. However, we are not making a recommendation for the use of this approach.

- HHS states that it adapts and updates, rather than determines, the Alaska and Hawaii poverty guidelines. HHS notes that it inherited the Alaska and Hawaii poverty guidelines series in 1982 from the Office of Economic Opportunity, which established these guidelines in 1970. HHS also notes that it has not consulted OPM documents to derive cost-of-living data to calculate the guidelines. We changed the wording in the draft to clarify this point.

- HHS states that if poverty thresholds for the insular areas could be constructed with the methodology used to construct the original national thresholds, the insular area thresholds would likely be lower than the national thresholds. HHS reasons that because median incomes in the insular areas in 1959 were significantly lower than those in the states, the share of family food consumption as a fraction of insular area family expenditures—the basis of the original Census methodology—would be higher, leading to a lower poverty threshold.[21] HHS also presents two alternative methods for estimating poverty thresholds for the insular areas: (1) as a percentage of median family income and (2) based on the responsiveness of poverty thresholds to changes in inflation-adjusted income over time. HHS states that using these two methods would produce poverty thresholds for different insular areas ranging between 14 and 86 percent of the continental U.S. poverty thresholds. HHS says that it does not advocate lower guidelines for

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[20]U.S. Department of Health, Education, and Welfare, *The Measure of Poverty: A Report to Congress as Mandated by the Education Amendments of 1974* (Washington, D.C: 1976), available at http://www.census.gov/hhes/www/povmeas/pdf/measureofpoverty.pdf; Constance F. Citro and Robert T. Michael (ed.), *Measuring Poverty: A New Approach* (Washington, D.C.: National Academy Press, 1995), available at http://www.census.gov/hhes/www/povmeas/toc.html; and GAO, *Poverty Measurement: Adjusting for Geographic Cost-of-Living Difference*, GAO/GGD-95-64 (Washington, D.C.: March 9, 1995).

[21]HHS bases the argument on the empirical relationship discovered by Engel that poorer families spend a larger fraction of their income on food than richer families. We note that although the 1955 food share in the insular areas might have been higher than in the contiguous states, it is likely that if there were 1964 food plans for the areas, the cost of these food plans would also be higher because food is imported in those areas. Therefore, the higher cost of the food plans could diminish the effect of the higher food share in the insular areas, rendering uncertain the overall level of the insular areas' specific poverty thresholds.

the insular areas but finds it inequitable to have higher guidelines for those areas because of the lower median income in those areas than that of the 48 states.

We note that applying these alternative methods would result in different levels of access to federal programs for people with the same income living in two areas with different median incomes. For example, a family with an income of $10,000 in one of the insular areas would qualify for less federal assistance than a family with the same income in another U.S. jurisdiction.

Census raises two main issues in its written comments:

- Census urges us to further study the poverty guidelines in the insular areas before making any recommendations that would increase those guidelines by a significant amount. We note that we have not made any recommendations in this report.

- Census suggests that we compare OPM's foreign area COLAs with insular area housing-cost differentials based on Census data and other sources. We did not consider alternative approaches for geographic COLAs of the poverty guidelines, such as the use of housing data; instead we focused our analysis on the approach used in 1970 to construct the Alaska and Hawaii poverty guidelines, based on OPM's process for computing nonforeign area COLAs. We note OPM's process includes a housing cost component that it adjusts for differences in the quality of housing, using statistical analysis; OPM then aggregates housing and other types of expenditures in constructing its cost-of-living index.

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We are sending copies of this report to interested congressional committees, as well as to HHS, Census, and the Office of Insular Affairs at the Department of the Interior. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov. If you or your staff have any questions about this report, please contact me at (202) 512-3149 or gootnickd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in enclosure V.

David Gootnick
Director, International Affairs and Trade

Enclosures

Briefing for Congressional Requesters

GAO
Accountability * Integrity * Reliability

Poverty Determination in U.S. Insular Areas

Briefing to Congressional Staff
May 28, 2009

Poverty Determination

- Two federal agencies publish versions of the measure used to determine poverty in the United States:
  - Census publishes *poverty thresholds* to determine the number of people in poverty. Besides being released to the media each year, these figures are used for certain need-based federal programs in formulas for allocating program funds among states and other jurisdictions.
  - The Department of Health and Human Services (HHS) provides *poverty guidelines*, which are used to determine households' and individuals' eligibility for certain need-based federal programs.

2

Census Bureau Poverty Thresholds

- The poverty thresholds—dollar-value benchmarks for determining who is in poverty—vary by family size and by the ages of certain family members.
  - The thresholds were developed by Mollie Orshansky of the Social Security Administration. They are based on the January 1964 cost of the Economy Food Plan for families of different sizes, multiplied by a factor of three to account for other living expenses; somewhat different procedures were followed for one- and two-person units. The factor of three was based on data from the 1955 Household Food Consumption Survey.
  - If a family's income—including all before-tax cash income, except capital gains, and excluding all noncash benefits, such as food stamps—is less than the threshold, Census considers the family and each of its members to be in poverty.
- The thresholds are applied as benchmarks throughout the United States with no geographic variation.
- Although the Orshansky methodology for developing the thresholds has been subject to debate, it has remained unchanged except for minor technical adjustments in 1969 and 1981.
- Census updates the thresholds for inflation yearly, using the Bureau of Labor Statistics' Consumer Price Index.
- The thresholds are used to generate poverty populations statistics, which are released to the media each year and are also used in formulas to allocate certain federal program funds among states and other jurisdictions.

3

HHS Poverty Guidelines

- The HHS poverty guidelines are derived from the Census Bureau poverty thresholds but, unlike the thresholds, do not consider the number of family members who are children under 18 years of age, or whether certain family units are over 65.
- HHS publishes a set of poverty guidelines each year for the 48 contiguous states and Washington, D.C.
- Since 1970, HHS has also published separate guidelines for Alaska and Hawaii that were 25 and 15 percent higher, reflecting federal cost-of-living allowances (COLA) for salaries of federal employees in those states at that time.
- Certain federal programs use the poverty guidelines to determine individuals' and families' income eligibility for need-based assistance: the higher the guideline amount, the greater the number of people who are potentially eligible for assistance.[a]

[a]Some of the need-based programs using the poverty guidelines actually use percentages of the guidelines higher than 100 percent. Some other need-based programs use dollar figures for eligibility that are unrelated to the poverty guidelines.

4

U.S. Insular Areas

- American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), Guam, Puerto Rico, and the U.S. Virgin Islands (USVI) rely heavily on need-based federal programs to provide basic services.
- In 1999, the percentage of individuals below the continental-U.S. poverty thresholds ranged from 23 in Guam—nearly twice as high as in the continental United States—to 61 in American Samoa.
- The approach used to determine poverty affects poverty statistics and income eligibility of individuals and families for certain need-based federal assistance in the insular areas.

5

Research Questions

- How are Census Bureau poverty thresholds and HHS poverty guidelines determined for the insular areas?
- Could poverty thresholds and guidelines specific to the insular areas be provided, and what would be the implications of extending to the insular areas the approach originally used to determine the Alaska and Hawaii guidelines?

6

Census uses the same poverty thresholds for the insular areas that it uses for the 50 states.

- Census issues the same thresholds for the insular areas as it does for the 50 states, without adjustment for geographic variations.
- Data on the food/income share were not collected by the 1955 Household Food Consumption Survey for the insular areas.
- Data on the January 1964 cost of the Economy Food Plan – the other data element on which the thresholds were based – were not collected for the insular areas in 1964.
- Although Census uses the CPI to adjust the national thresholds for inflation each year, the Bureau of Labor Statistics does not collect price data to construct insular areas' CPI.

7

HHS does not issue poverty guidelines for the insular areas.

- HHS has never issued guidelines for the insular areas.
- According to HHS, in cases in which a federal program using the poverty guidelines serves any of those jurisdictions, the federal office that administers the program is generally responsible for deciding whether to use the contiguous-states-and-D.C. guidelines for those jurisdictions or follow some other procedure.

8

Census Bureau poverty thresholds specific to the insular areas cannot be constructed from available data.

- Lacking information for the insular areas on the 1955 share of income spent on food, the January 1964 cost of the Economy Food Plan, and the CPI, inflation-adjusted poverty thresholds specific to the insular areas cannot be constructed using Orshansky methodology.
- Without the 1964 cost of an economy food plan or the share of income spent on food in the insular areas, it is unclear whether thresholds for the insular areas, if constructed, would be higher or lower than the national thresholds. However, an official from HHS told us that the most likely result if the Orshansky methodology could be applied to the insular areas would be thresholds lower than the national thresholds due to the higher share of food in insular areas' total family expenditures.
- Higher or lower thresholds for the insular areas would raise or lower estimates of poverty incidence, affecting allocations of need-based assistance from federal programs that use poverty statistics in distribution formulas.

9

The approach used for providing HHS poverty guidelines for Alaska and Hawaii in 1970 could be extended to the insular areas.

- HHS poverty guidelines specific to the insular areas, reflecting geographic differences in the cost–of–living, could be constructed by applying the rationale used for Alaska and Hawaii in 1970.
- Using this approach would produce higher guidelines—25 percent higher for CNMI, Guam, and USVI and 14 percent higher for Puerto Rico—than the guidelines for the contiguous states and Washington, D.C. Because no COLA is defined for American Samoa, this approach could not be used to compute guidelines for that area.
- This approach would not take into account any differences in consumption patterns between federal employees and insular area poor populations.
- See table 1.

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Table 1: Index Derived from OPM Cost-of-Living Allowances

Locality	Index derived from OPM nonforeign area COLA
American Samoa	N/A
CNMI	125
Guam	125
Puerto Rico	114
USVI	125
Alaska	124
Hawaii	123
Washington D.C.	100

Source: OPM. Note: COLA rates shown were published in the Federal Register by OPM on February 20, 2009 amending subpart B of 5CFR part 591. Rates shown for Alaska and Hawaii are simple unweighted averages of statewide COLAs. No COLA is listed for American Samoa; however, OPM defines a post differential rate for American Samoa of 25 percent. The post differential is based on extraordinarily difficult living conditions, excessive physical hardship, or notably unhealthful conditions. The base is Washington, D.C. Under 5 USC § 5941 nonforeign area COLAs are limited to 25 percent of basic pay.

11

Higher HHS poverty guidelines would affect some federal programs.

- Higher HHS guidelines could increase the number of individuals and families eligible for need-based assistance from federal programs that use the contiguous-states-and-D.C. guidelines as a criterion. (See app. I for examples of such programs.)
- Higher HHS guidelines would not affect
    - federal programs that distribute need-based assistance according to formulas involving poverty statistics based on Census Bureau poverty thresholds, or
    - federal programs that cap the distribution of need-based assistance to the insular areas according to statutorily defined percentages, such as Medicaid.

12

Methodology

- We reviewed the relevant literature on poverty determination in the United States and the insular areas, interviewed agency officials, and analyzed OPM’s methods used for cost-of-living pay adjustments.
- We did not examine the potential impact of extending to the insular areas the approach originally used to determine the Alaska and Hawaii guidelines on individual income eligibility and did not evaluate the cost effects of this approach.
- We conducted our work in accordance with GAO's Quality Assurance Framework.

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Appendix I: Select Federal Programs Using HHS Poverty Guidelines to Determine Eligibility for Need-based Assistance in Insular Areas

- National School Lunch Program (and Commodity School Program)
- School Breakfast Program
- Special Milk Program for Children
- Child and Adult Care Food Program
- Summer Food Service Program
- Special Supplemental Nutrition Program for Women, Infants, and Children
- Supplemental Nutrition Assistance Program (Food Stamp Program)[a]

[a]Uses poverty guidelines to determine income eligibility for need-based assistance in Guam and USVI only.

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Enclosure II

Insular Areas' Poverty Rates in 1999

	Poverty rate (%)
Guam	23.0
American Samoa	61.0
USVI	32.5
CNMI	46.0
Puerto Rico	48.2

Source: 2000 Census of Population and Housing, U.S. Census Bureau.

Enclosure III

Comments from the Department of Health and Human Services

Note: GAO comments supplementing those in the report text appear at the end the this enclosure.

DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF THE SECRETARY

Assistant Secretary for Legislation
Washington, DC 20201

OCT 8 2009

David Gootnick
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street N.W.
Washington, DC 20548

Dear Mr. Gootnick:

Enclosed are comments on the U.S. Government Accountability Office's (GAO) report entitled: Poverty Determination in U.S. Insular Areas (GAO- 09-1041R).

The Department appreciates the opportunity to review this report before its publication.

Sincerely,

Andrea Palm
Acting Assistant Secretary for Legislation

Enclosure

GENERAL COMMENTS FROM THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED: POVERTY DETERMINATION IN U.S. INSULAR AREAS (GAO-09-1041R)

The Office of the Assistant Secretary for Planning and Evaluation (ASPE) appreciates the opportunity to review and comment on the Government Accountability Office's (GAO) draft report, which examines the Census Bureau's poverty thresholds and the Department of Health and Human Services (HHS) poverty guidelines and how they are applied to the insular areas. The draft report also describes one specific procedure that could potentially be used to develop thresholds and guidelines specific to the insular areas–a procedure involving federal employee cost-of-living allowance figures. ASPE's comments on the draft report address three main topics: (1) the quality of the federal employee cost-of-living allowance figures as a possible data base for adjusting the federal poverty measure; (2) the use of the federal salary figures to develop poverty guidelines for Alaska and Hawaii in 1966-1970; and (3) the probability that poverty thresholds for the insular areas calculated on the same basis as Mollie Orshansky's poverty thresholds for the continental U.S. would be lower than those for the continental U.S.

Federal Employee Cost-of-Living Allowances–Not a Data Base of Acceptable Quality

See comment 1.

Over the decades, there have been several occasions on which poverty measurement professionals have indicated that they believe that the federal employee cost-of-living allowance figures are not a data base of sufficiently good statistical quality to be used in adjusting the federal poverty measure. The Office of Economic Opportunity (OEO) employees familiar with the development of the Alaska/Hawaii poverty guidelines subsequently concluded that the federal employee cost-of-living allowances were among the data bases that were not of sufficiently good quality to be used in adjusting the poverty measure.

OEO began issuing poverty guidelines in December 1965. The first poverty guidelines were the same for all 50 states (and the District of Columbia). In this administrative context, OEO decided during the 1966-1970 period to institute separate poverty guidelines for Alaska and Hawaii. The new guidelines were 25 percent (Alaska) and 15 percent (Hawaii) higher than the original guidelines.[1] OEO never published any explanation of how or from what source these percentage differentials were derived. However, a later unpublished memorandum from three OEO employees indicated that OEO derived these percentage differentials from the Civil Service Commission's (CSC) federal employee pay (geographic) cost-of-living allowance differentials

[1] See Israel Putnam, "Poverty Thresholds: Their History and Future Development" [November 1970], pp. 277, 280, and 281 in Mollie Orshansky [compiler], *Documentation of Background Information and Rationale for Current Poverty Matrix* http://www.census.gov/hhes/www/povmeas/pdf/tp_i.pdf (Technical Paper I of *The Measure of Poverty*), Washington, D.C., U.S. Department of Health, Education, and Welfare, 1977; and U.S. Office of Economic Opportunity, "Guidelines for Alaska and Hawaii," *Federal Register*, Vol. 35, No. 70, April 10, 1970, p. 5948.

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for Alaska and Hawaii.

In 1976, a federal interagency Poverty Studies Task Force published a major study on poverty measurement, *The Measure of Poverty*.[2] The Poverty Studies Task Force included two of the OEO employees who knew that OEO had used the CSC federal salary figures to derive the Alaska and Hawaii guidelines. Because of considerable interest in the general issue of geographic cost-of-living differences, this study devoted considerable effort to examining this issue. "The conclusion of this extensive analysis is that although there may be geographic differences in the cost of living, there is no known way to make satisfactory geographic adjustments to the poverty cutoffs" (p. 82). "None of [the] existing data sources [examined] is of sufficient size and quality to support the kind of detailed analysis that would be required to establish valid geographic equivalences [for poverty measurement]" (p. 49).

Although it has been four decades since OEO used the CSC figures to institute separate guideline figures for Alaska and Hawaii, the Census Bureau has never used the CSC figures to institute separate poverty threshold figures for those states.

In addition, in 1995 the Panel on Poverty and Family Assistance appointed by the National Research Council published a 501-page report, *Measuring Poverty: A New Approach*[3], with a proposed new approach for developing an official U.S. poverty measure. The report included an extensive discussion (pp. 182-203) on how the proposed new poverty measure should be adjusted for geographic cost-of-living differences. This discussion did not mention the federal employee cost-of-living allowance figures as a possible acceptable data source for adjusting the poverty measure for geographic cost-of-living differences.

Furthermore, also in 1995 the U.S. General Accounting Office (as it was then called) issued a report, *Poverty Measurement: Adjusting for Geographic Cost-of-Living Difference* (GAO/GGD-95-64, March 1995)[4]. For the report, GAO identified twelve methodologies that could

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[2] See U.S. Department of Health, Education, and Welfare, *The Measure of Poverty: A Report to Congress as Mandated by The Education Amendments of 1974* http://www.census.gov/hhes/www/povmeas/pdf/measureofpoverty.pdf, Washington, D.C., U.S. Government Printing Office, April 1976.

[3] See Constance F. Citro and Robert T. Michael (editors), *Measuring Poverty: A New Approach* http://www.census.gov/hhes/www/povmeas/toc.html, Washington, D.C., National Academy Press, 1995.

[4] See U.S. General Accounting Office, *Poverty Measurement: Adjusting for Geographic Cost-of-Living Difference* (GAO/GGD-95-64) http://www.gao.gov/archive/1995/gg95064.pdf, March 1995.

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GENERAL COMMENTS FROM THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED: POVERTY DETERMINATION IN U.S. INSULAR AREAS (GAO-09-1041R)

potentially be used in adjusting poverty measures for geographic cost-of-living differences, and presented them to fifteen experts for their review. None of the twelve methodologies used or referred to the federal employee cost-of-living allowance figures.

See comment 1.

ASPE does not believe that it would be appropriate to use the current Office of Personnel Management (OPM–the successor to CSC) version of those figures to adjust either version of the federal poverty measure for the insular areas.

Which Agency Used Federal Salary Figures to Develop Separate Poverty Guidelines for Alaska and Hawaii?

The second paragraph and several other statements throughout the draft report implicitly refer to adjusting poverty guidelines by the current OPM federal employee cost-of-living allowance figures as "...the approach that HHS currently uses to determine the Alaska and Hawaii [poverty] guidelines." Strictly speaking, that reference is not accurate.

As noted above, OEO used federal employee cost-of-living allowance figures to institute separate poverty guideline figures for Alaska and Hawaii during the 1966-1970 period. OEO and its successor agency, the Community Services Administration (CSA), continued to update and publish the poverty guidelines–including the higher Alaska and Hawaii guidelines–each year until 1981[5] without any explanation of the higher Alaska and Hawaii guidelines nor any indication that federal employee cost-of-living allowances were considered again each year in calculating the Alaska and Hawaii differentials.

See comment 2.

When HHS was assigned responsibility for updating the poverty guidelines in 1982[6], the Department calculated Alaska and Hawaii guidelines using the 25 percent and 15 percent differentials which it "grandfathered in" from the OEO/CSA guideline series. HHS did not consult OPM documents to get figures to calculate Alaska and Hawaii guidelines, and has continued to use the "grandfathered-in" differentials to calculate Alaska and Hawaii guidelines since 1982. As a result, the proposal in the GAO draft report to use OPM federal salary figures to adjust poverty guidelines for insular areas is most accurately described as an adaptation and update (using today's OPM figures rather than 1960s CSC figures) of what OEO did to calculate

[5] See Community Services Administration, "45 CFR Part 1060–General Characteristics of Community Action Programs; CSA Income Poverty Guidelines," *Federal Register*, Vol. 46, No. 43, March 5, 1981, pp. 15270-15271.

[6] See Department of Health and Human Services, Office of the Secretary, "Annual Revision of Poverty Income Guidelines," *Federal Register*, Vol. 47, No. 69, April 9, 1982, pp. 15417-15418.

GENERAL COMMENTS FROM THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED: POVERTY DETERMINATION IN U.S. INSULAR AREAS (GAO-09-1041R)

Alaska and Hawaii guidelines.

Poverty Thresholds for Insular Areas Consistent with Orshansky's Continental-U.S. Thresholds Would Probably Be Lower, Not Higher

See comment 3.

ASPE believes that if it were possible to construct poverty lines for the insular areas that were conceptually consistent with the Orshansky poverty thresholds, those insular area poverty lines would probably be lower than the poverty thresholds for the continental U.S., not higher.

In order to calculate poverty thresholds for the insular areas using the same methodology that Mollie Orshansky used to calculate poverty thresholds for the continental U.S., it would be necessary to have economy food plans developed for those areas in 1961, and Household Food Consumption Surveys for those areas taken in 1955. Such food plans and such surveys do not exist. However, it is still possible to say something about what the results of such calculations would probably be. As can be seen in the table on the next page, median family incomes for the insular areas for 1959 (the year closest to the dates of the economy food plan and the Household Food Consumption Survey used) were significantly lower than median family income for the continental U.S. It is known from Engel's Law[7] that for lower incomes, the proportion of income spent on food is higher than for higher incomes. For the continental U.S., the 1955 Household Food Consumption Survey found that the average family spent about one third of its after-tax money income on food. By Engel's Law, the corresponding food shares for the insular areas for (approximately) 1955 would have been significantly higher than one third. If one assumes (for illustrative purposes) that the 1955 food share for one of the insular areas might have been one half, then the corresponding "multiplier" (the figure by which one multiplies the cost of a food plan to get a poverty threshold) for that area would have been two, as compared with the multiplier of three for the continental U.S. This means that the poverty threshold for that insular area would have been significantly lower than the threshold for the continental U.S.

[7] Ernst Engel, a 19th-century German statistician, formulated the empirical relationship which became known as Engel's Law: "The poorer is a family, the greater is the proportion of the total outgo which must be used for food....The proportion of the outgo used for food, other things being equal, is the best measure of the material standard of living of a population." (See Carle C. Zimmerman, "Ernst Engel's Law of Expenditures for Food," *Quarterly Journal of Economics*, Vol. 47, No. 1, November 1932, p. 80.)

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Median Family Incomes for the U.S. and Insular Areas–1959[8]

(Alaska)	($7,305)
(Hawaii)	(6,366)
United States (50 states and D.C.)	5,660
Guam	4,549
U.S. Virgin Islands	2,243
Puerto Rico	1,268
American Samoa	770
Northern Mariana Islands	N/A

These median family income figures indicate that it is questionable to assume that it is appropriate to simply take the ad hoc procedure for developing guidelines for Alaska and Hawaii, and apply it to the insular areas. Rather than being economically similar to the insular areas, Alaska and Hawaii had 1959 incomes roughly three to nine times as high as most of the insular areas; while Alaska and Hawaii had incomes higher than the U.S. median, the insular areas had incomes significantly lower than the U.S. median.

See comment 3.

One method of developing a rough estimate of poverty lines for the insular areas would be to simply assume that poverty lines should be directly proportional to median family income figures–for instance, if an area's median family income was half of the corresponding figure for the U.S. as a whole, then the poverty line for that area would be 50 percent of the continental-U.S. poverty line.

See comment 3.

Another method of developing insular-area poverty lines from income figures would be to make use of findings concerning the income elasticity of the poverty line.[9] For the U.S., there is extensive evidence–from both "expert"-devised minimum budgets and "subjective" low-income figures derived from Gallup Poll responses–that successive poverty lines developed as absolute

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[8] See U.S. Bureau of the Census, *Statistical Abstract of the United States 1969* (90th Annual Edition), Washington, D.C., U.S. Department of Commerce, pp. 324 and 814.

[9] See Citro and Michael (cited in footnote 3), pp. 140-141 and 143-144; and G. M. Fisher, "Is There Such a Thing as an Absolute Poverty Line Over Time? Evidence from the United States, Britain, Canada, and Australia on the Income Elasticity of the Poverty Line" http://www.census.gov/hhes/www/povmeas/papers/elastap4.html (Poverty Measurement Working Paper, U.S. Census Bureau web site), August 1995.

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poverty lines tend to rise in real terms as the real income of the general population rises.

See comment 3.

Rough-estimate poverty lines for different insular areas based on these two methods range between 14 percent and 86 percent of the continental-U.S. poverty line. (These results are in sharp contrast to the poverty guideline figures for insular areas in the enclosure to the GAO draft report based on the OPM federal salary figures; those guidelines figures are between 114 and 125 percent of the continental-U.S. poverty line.)

See comment 3.

Based on this analysis, ASPE finds no evidence to support the proposal in the GAO draft report to have poverty guidelines for insular areas between 14 and 25 percent higher than the 48-state poverty guidelines. ASPE is not proposing that poverty guidelines for the insular areas should actually be lowered from the 48-state guideline level. At the same time, it would seem inequitable to give the insular areas higher poverty guidelines than those for the 48 states when the standards of living of the various insular areas are generally so much lower than that of the 48 states.

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GAO Comments

The following are GAO's responses to HHS's letter, dated October 8, 2009.

1. HHS states that the federal employee nonforeign area COLAs published by OPM are not of sufficient statistical quality for use in adjusting the federal poverty guidelines. HHS cites as evidence the fact that OPM's database for the nonforeign area COLAs was not recommended in studies by the Poverty Studies Task Force in 1976, the Panel on Poverty and Family Assistance in 1995, and GAO in 1995 as a potential data source for adjusting the poverty measure for geographic cost-of-living differences. However, the three studies that HHS cites explored the feasibility of adjusting the federal poverty measure for geographic differences in the 50 states. The nonforeign area COLAs' application has been restricted to the insular areas, Alaska, and Hawaii; these COLAs have not been developed as a database to be used throughout the United States.

   HHS also states that it does not believe that it would be appropriate to use the current OPM nonforeign area COLA data to adjust the poverty guidelines for the insular areas. We considered these data because they were used to construct the Alaska and Hawaii poverty guidelines in 1970 and because these are the only poverty guidelines that have been established specific to any geographic areas. However, we are not making a recommendation for the use of this approach.

2. HHS comments that it adapts and updates, rather than "determines"—as the draft of our report stated—the Alaska and Hawaii poverty guidelines. HHS notes that it inherited the Alaska and Hawaii guideline series in 1982 from OEO, which originally instituted these guidelines in 1970. We changed the wording of our report to reflect this fact. HHS also states that it has not consulted OPM documents to get figures to calculate the guidelines for Alaska and Hawaii. Our report acknowledges this point in footnote 16.

3. HHS moves beyond discussing whether there are differences in the cost of living between insular areas and the 48 contiguous states and focuses on alternative approaches for setting poverty thresholds. HHS observes that if historical data did exist for the insular areas and the methodology used to construct the original thresholds were applied, poverty thresholds for those areas would likely be lower, because median incomes in the insular areas historically have been significantly lower than those in the states and, as a result, the share of family food consumption as a fraction of insular area family expenditures would be higher.[22] We note that although the 1955 food share in the insular areas might have been higher than in the contiguous states, it is also

[22]HHS bases the argument on the empirical relationship discovered by Engel that poorer families spend a larger fraction of their income on food than richer families (see comments from HHS, footnote 7).

likely that if there were 1964 food plans for the areas, the cost of these food plans would also be higher because food is imported in those areas. Therefore, the higher cost of the food plans could diminish the effect of the higher food share in the insular areas, rendering uncertain the overall level of the insular areas' specific poverty thresholds.

HHS also provides rough estimates of poverty thresholds based on two alternative methods. First, it estimates poverty thresholds as a percentage of median family income. We note that using this approach would lead to lower poverty thresholds for any state or other jurisdiction with lower median household incomes. The consequence would be that families in poorer states or other jurisdictions would have less access to need-based federal assistance than would families with the same income in more affluent areas.

Second, it estimates poverty thresholds based on the responsiveness of poverty thresholds to changes in inflation-adjusted income over time. We note that under this method, areas with lower median household income and higher cost of living would have even lower poverty thresholds than the thresholds established with the first alternative approach that HHS describes. The consequence would be that families in poorer areas with higher cost of living would have a further reduction in access to federal assistance.

HHS states that using these two approaches would produce poverty thresholds for different insular areas ranging between 14 and 86 percent of the current U.S. poverty thresholds. HHS says that it does not advocate lower guidelines for the insular areas but finds it inequitable to have higher guidelines for those areas because of the lower median income in those areas than that of the 48 states.

Comments from the Census Bureau

Note: GAO comments supplementing those in the report text appear at the end the this enclosure.

UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for Economic Affairs
Washington, D.C. 20230

OCT 1 5 2009

Mr. David Gootnick
Director, International Affairs and Trade
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Gootnick:

Thank you for the opportunity to provide comments on the draft report entitled "*Poverty Determination in U.S. Insular Areas*" (GAO-09-1041R). We have no comments on the background section of the draft report, as it appears to accurately describe the development and use of U.S. poverty thresholds.

See comment 1.

We would, however, urge the Government Accountability Office (GAO) to study the issue of poverty guidelines for the insular areas further before making recommendations that would increase poverty guidelines by a significant amount in most of these areas. The 1995 National Academy of Sciences report, "*Measuring Poverty: A New Approach,*" suggested that differences in housing costs may represent a viable basis for adjusting poverty thresholds when more comprehensive inter-area price adjustments are not available. The reasons for this suggestion include: 1) housing costs represent a significant portion of poverty budgets; 2) housing costs tend to differ more across geographic areas than other consumer items; and 3) housing cost differentials, across geographic areas, are often available to a greater extent than geographic cost differentials of other consumer items.

See comment 2.

The 2008 American Community Survey contains information about 2008 housing costs in Puerto Rico, and Census 2000 results include housing data for Puerto Rico and all of the other insular areas. In addition, Housing and Urban Development Fair Market Rents are available for most of these areas. We suggest that GAO should examine these data to ascertain whether the suggested Office of Personnel Management COLA-based adjustments seem reasonable in light of housing-cost differentials based on U.S. Census Bureau data and other sources.

Again, thank you for the opportunity to comment on this draft report.

Sincerely,

Rebecca Blank

Rebecca M. Blank

ECONOMICS AND STATISTICS ADMINISTRATION

Enclosure IV

GAO Comments

The following are GAO's comments on the Census letter, dated October 15, 2009.

1. Census urges us to further study the poverty guidelines in the insular areas before making any recommendations that would increase those guidelines by a significant amount. Note that we have not made any recommendations in this report.

2. Census suggests that we compare OPM's foreign area COLAs with insular area housing-cost differentials based on data such as the 2008 American Community Survey (ACS), Census 2000, and the Housing and Urban Development Fair Market Rents. We note the following:

   - We did not consider alternative approaches for geographic cost-of-living adjustment of the poverty guidelines, such as the use of housing data, because we focused only on the approach used in 1970 to construct the Alaska and Hawaii poverty guidelines and because these are the only poverty guidelines that have been established specific to any geographic areas.

   - OPM analysis includes a housing cost component that is adjusted for differences in the quality of housing, using statistical analysis. OPM then aggregates housing and other types of expenditures in constructing its cost-of-living index.

   - GAO has identified challenges in the approach used to estimate the Housing and Urban Development Fair Market Rents and has recommended ways to improve the accuracy of Fair Market Rents estimates.[23]

[23]See GAO, *Rental Housing: HUD Can Improve Its Process for Estimating Fair Market Rents*, GAO-05-342 (Washington, D.C.: March 31, 2005).

GAO Contact and Staff Acknowledgments

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