

# Poverty Rates among Current and Former Families First Participants



A Report to the Tennessee Department of Human Services

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## Introduction

The primary goal of the Families First program is to help needy families with dependent children achieve self-sufficiency and maintain family stability. While this goal is not directly anti-poverty, poverty reduction may be a legitimate measure of economic and social well-being of the participants. Poverty is also important because of its potential links with many social issues, such as low education and poor health. While poverty rates are important in understanding the economic well-being of the Families First participants, they are not necessarily significant indicators of the success of the welfare program. While poverty rates of Families First participants are interesting, it should be understood that the Families First policy essentially requires that the recipients be in poverty to receive benefits. If a family of three has earnings of more than \$1029 a month, the family will not be able to receive Families First benefits and these earnings alone would not get the family above the poverty line. For this reason, one should not be alarmed by high poverty rates among Families First recipients.

This report first presents a calculation of the poverty rate among Families First participants using the official Census definition of poverty. Poverty is determined by comparing a household's pre-tax cash income with the household's poverty threshold, which is adjusted according to family size and makeup. The poverty rates are calculated and broken down by several Families First participant characteristics, such as race, urban/rural status, marital status, and education. Differences in poverty rates are also examined for various groups as defined by car access, work requirements, or length of time off of Families First cash assistance.

While it is important to understand and define whether or not an individual is in poverty, an additional indication of the individual's economic well-being is the depth of poverty. We define this as the ratio of a household's income to its poverty level. If the ratio is below 100 percent, the household is in poverty. The household is considered to be in severe poverty if the ratio is below 50 percent. This will give us an indication of the severity of poverty among Families First participants.

## Welfare Reform and Poverty Rates

When the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) was enacted in 1996, emphasis was placed on making welfare recipients self-sufficient. To accomplish this, stricter time limits were enacted along with certain work requirements for those on assistance. Welfare caseloads fell dramatically following the passage of PRWORA. Whether or not income increased among these households is a question of great interest.

Blank (2002) finds unambiguous declines in poverty among single-mother families from 1992 to 2000. In 2000, an historically low 24.7 percent of single mothers were in poverty. Blank feels the evidence suggests that the change in social policy did not weaken the economic situation of the poor, at least in the short run. She also points out that over the same time period, the decline in public assistance caseloads was much greater than the decline in poverty rates. This suggests that the share of working poor rose as women entered the workforce yet remained poor. Blank

also examines the trend of poverty gaps from 1993 to 1998. She finds mixed evidence based on how income is defined. When including only pre-transfer cash income, she finds substantial increases in earnings, which leads to a reduction in the poverty gap.

After 2000, poverty rates increased. In 2000, the overall U.S. poverty rate was 11.3 percent, and the poverty rate among female-headed households with children and no spouse was 35.1 percent.<sup>1</sup> By comparison, Tennessee's poverty rates in 2000 were 14.7 percent overall and 33.2 percent among female-headed households with children and no spouse present. In 2002, the overall U.S. poverty rate was 12.1 percent and 35.2 percent among female-headed households with children and no spouse. Tennessee's 2002 poverty rates were 14.8 percent overall and 39.3 percent among female-headed households with children and no spouse present.

## Calculating Poverty Rates

Mollie Orshansky of the Social Security Administration in 1963-1964 developed the poverty thresholds. Her poverty thresholds were based on the U.S. Department of Agriculture food budget for a family under economic stress. The Department of Agriculture's Household Food Consumption Survey indicated that families of three or more spent roughly one third of their after-tax income on food in 1955, so Orshansky calculated the poverty threshold by multiplying the Department of Agriculture food budget by three. The poverty threshold is updated annually by the U.S. Census Bureau to adjust for inflation, using the Consumer Price Index for All Urban Consumers (CPI-U).

The Census Bureau calculates poverty rates using money income and then compares the income to official poverty thresholds that differ according to the size of the family and the age of family members. First, it is important to understand what is included in the Census definition of money income. Table 1 lists sources of income that are included in the Census definition. Based on these income sources, household income is compared to the poverty threshold. The poverty thresholds are viewed as a measure of need. There are 48 different thresholds, depending on the size of the family and the ages of the family members.<sup>2</sup> If total family income is less than the appropriate

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<sup>1</sup> These poverty rates are calculated by counting the number of people in poverty, including children. All official poverty data are found at [www.census.gov](http://www.census.gov).

<sup>2</sup> Official poverty thresholds do not vary geographically.

threshold, then the family is considered to be in poverty and all members of the family are assigned the same poverty status. The extent or severity of poverty is easily calculated by dividing total family income by the appropriate poverty threshold. The Census refers to this as the ratio of income to poverty. See Table 2 for an example of how poverty rates are calculated.

Calculating poverty rates using the Census poverty thresholds has come under much criticism lately. The fact that only cash income is used in the calculation excludes many sources of income for lower income families, such as the Earned Income Tax Credit (EITC), food stamps, and housing assistance. As these non-cash programs have increased in use, families rely more heavily on them, which increases the controversy surrounding the Census poverty thresholds. An additional criticism is whether or not one-third of a family’s budget is used for food purchases. While

this might have been true in 1955, it could be the case that the average family’s budgetary needs have changed since then. However, the Census poverty thresholds are still commonly used and will continue to be used until the method of estimating poverty thresholds is updated. Consequently, we use Census methods and poverty thresholds in the following analysis.

In order to calculate Families First poverty rates, we must first calculate total family income. Data on participants’ income were drawn from their answers to questions on the *Family Assistance Longitudinal Study* regarding their earnings, benefits received, and other income sources. We follow the Census definition of income to the greatest extent possible.<sup>3</sup> We then use reported family size and ages to determine the appropriate Census poverty threshold to use.

**Table 1: Income Used by Census in Poverty Calculations**

Included	Not Included
Earnings	Food Stamps
Unemployment Compensation	Housing Assistance
Workers' Compensation	Medicaid
Social Security	Capital Gains/Losses
SSI	Other Noncash Benefits
Public Assistance	
Veterans' Payments	
Survivor Benefits	
Pension Income	
Interest	
Dividends	
Rents	
Royalties	
Estate Income	
Trusts	
Educational Assistance	
Alimony	
Child Support	
Outside Household Assistance	
Other	

**Table 2: Poverty Rate Calculation Example**

Family: 3 members (2 related children under 18 and one mother)	
Poverty threshold is \$14,494 in 2002	
Suppose income in 2002 is:	
Mother	\$9,000
First Child	\$2,000
Second Child	\$0
Family Income	\$11,000
Income/Threshold = 11000/14494 = 0.76	
Because the Income/Threshold ratio is less than one, the family is in poverty according to Census definition.	

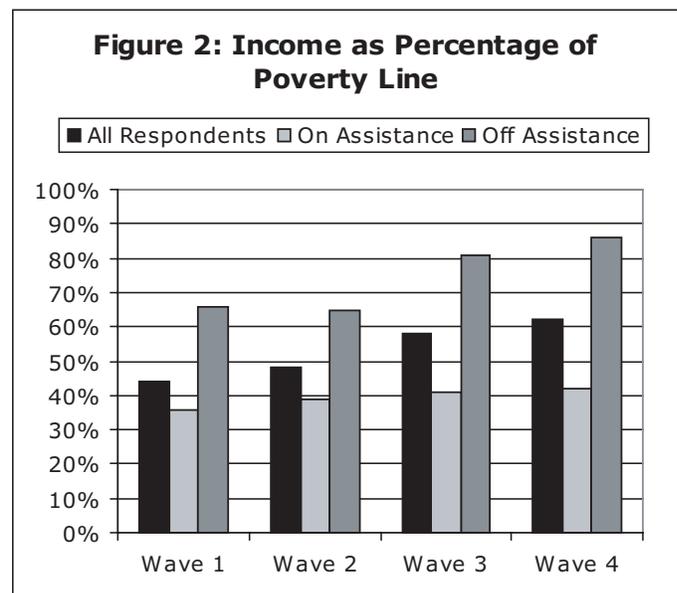
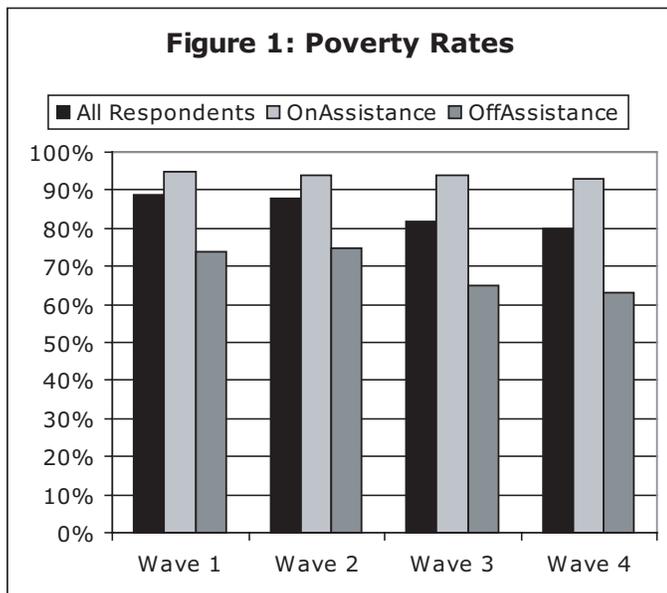
<sup>3</sup> Since answers to spouse’s earnings were given in ranges (e.g., \$500-\$800), we use the midpoint of the range in calculating household income. Those in the top bracket of \$2400 (only 4 percent of spouses earning income are in the top bracket) or more are assigned a value of \$2400.

## Overall Poverty among Current and Former Families First Households

The following analysis was conducted using the first four Waves of the *Family Assistance Longitudinal Study*. Poverty rates were calculated for all four Waves of the survey to examine the trend in poverty rates over time. Poverty rates for the four Waves are shown for all respondents and then for those on cash assistance versus those off cash assistance. Respondents labeled as “on assistance” are those who were currently receiving Families First cash assistance at the time of the survey. Figure 1 shows a slight downward trend of poverty rates over the time period. The poverty rates of those on assistance have fallen slightly from 95 percent in Wave 1 to 93 percent in Wave 4. Poverty rates for those off assistance declined more steeply over the four Waves from 74 percent to 63 percent.

Income as a percentage of the poverty line was calculated for all four Waves to see the trend over time. Results are again presented for all respondents and then those on assistance versus those off assistance. Figure 2 displays an upward trend in this measure over time, sug-

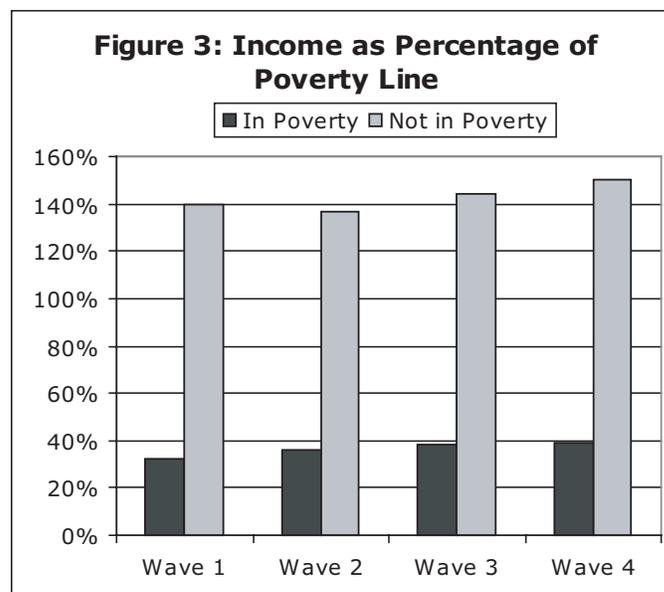
gesting that family incomes have grown for our sample relative to the poverty lines. Those receiving Families First cash assistance during the time of each survey enjoyed a modest increase in their income relative to their poverty line. Income as a percentage of the poverty line increased from 36 percent in Wave 1 to 42 percent by Wave 4. Income as a percentage of the poverty line increased more dramatically for those who were not receiving benefits at the time of the survey, from 66 percent to 86 percent. It is tempting to conclude that the gap between recipients on assistance and those off assistance has increased over time. We must understand, however, that the survey was conducted of the same individuals over time. The recipients who were most capable of success off the program were probably the first to leave and had probably achieved the most success by Wave 4. We can, however, say that the gap has increased within the group that was surveyed but we cannot form any conclusions about the overall Families First population.



<sup>4</sup> The MDRC report included food stamps and EITC income in the definition of a family’s income.

Note that Figure 2 does not exclude respondents who are not in poverty. It may be more important to closely examine the depth of poverty of those who are in poverty. This is illustrated in Figure 3. Income of respondents who are in poverty is 39 percent of their respective poverty lines in Wave 4, which is up from 32 percent in Wave 1. In other words, family income for these households would have to increase by more than 150 percent on average in order for these families to escape poverty. Income of those not in poverty is 150 percent of their respective poverty lines in Wave 4, which is up from 140 percent in Wave 1.

As means of comparison, Mathematica Policy Research, Inc. (Kirby, et al., 2003) reported that 93% of TANF recipients in Illinois were in poverty and 65% were in severe poverty. An MDRC study (Coulton, et al., 2001) that examined welfare leavers in Cuyahoga County, Ohio, found that 57% of the families that left welfare were in poverty in 2001.<sup>4</sup>



## Breakdowns of Poverty Rates by Other Characteristics

We now turn to a decomposition of poverty by other important factors such as race, urban/rural residence, marital status, and education.<sup>5</sup> Because the trends in both poverty rates and income as a percentage of the poverty line are consistent across different categories, results reported in this section are from Wave 4 only.

Table 3 presents poverty rates first for all respondents and then for those on assistance versus those off assistance, all broken down into various categories. We find no statistically significant differences in poverty rates among race or urban/rural status. This is true for both those receiving assistance and those not receiving assistance. Poverty rates show little or no difference depending on whether or not a respondent is single or married, al-

though results for all respondents reveal that slightly more singles are in poverty. Poverty rates unambiguously fall as the level of education increases. Poverty rates are also significantly lower for those off assistance who have access to a car.

We find that poverty rates tend to fall as the length of time off assistance increases.<sup>6</sup> Only 57 percent of those off assistance for more than one year are in poverty, while 73 percent of those off assistance less than six months are in poverty. While this is an encouraging result, it must be realized that all respondents were on assistance just before Wave 1 was administered. Consequently, those who have been off assistance the longest were likely the most capable of leaving early.

<sup>5</sup> Urban is defined as the four largest counties: Davidson, Hamilton, Knox, and Shelby.

<sup>6</sup> Length of time off assistance is defined as length of time off as of survey date in Wave 4 of the FALS.

It is interesting to note that poverty rates of those on assistance are all within the 90-96 percent range. There seems to be little difference in rates among those on assistance for any of the characteristics studied. There does seem to be greater differences in poverty rates for those who are not receiving assistance. It is also important to note that the poverty rates of those off assistance are unambiguously lower than those on assistance within the same categories.

Examining the ratio of income to the poverty line gives us similar results. Results using Wave 4 data are shown in Table 4. Again, we find no statistically significant difference in poverty rates by race or urban/rural status groups. As education increases, the ratio of income to poverty unambiguously increases. Incomes for respondents off assistance with less than a high school education average 61 percent of the poverty line. This increases to 111 percent as education increases to a level greater than

**Table 3: Poverty Rates**

	<b>All Respondents</b>	<b>On Assistance</b>	<b>Off Assistance</b>
<b>Race:</b>			
White	78	94	66
Non-white	80	93	60
<b>Urban/Rural:</b>			
Urban	81	93	62
Rural	78	94	64
<b>Marital Status:</b>			
Single	<b>81</b>	93	64
Married	<b>76</b>	93	61
<b>Education:</b>			
Less than High School	<b>89</b>	<b>96</b>	<b>77</b>
High School Graduate	<b>80</b>	<b>94</b>	<b>65</b>
More than High School	<b>69</b>	<b>90</b>	<b>50</b>
<b>Car Ownership:</b>			
Ownership/Access	<b>74</b>	93	<b>58</b>
No Car	<b>87</b>	94	<b>74</b>
<b>Work Requirement:</b>			
Required to Work		<b>93</b>	
Work Exempt		<b>96</b>	
<b>Length of Time Off Assistance:</b>			
1-6 months			<b>73</b>
6-12 months			<b>63</b>
More than 12 months			<b>57</b>

Sample sizes differ by category and are available upon request  
 Entries are in percentages  
 Bold numbers indicate statistical significance

high school. Respondents off assistance with an education level greater than high school are the only group with an average income greater than the poverty line.

Income as a percentage of the poverty line for respondents with access to a car is also unambiguously higher than that for respondents with no access to a car. Whether or not a participant is required to work makes no significant difference. As the length of time off assistance increases, income as a percentage of the poverty line in-

creases on average. A respondent off assistance for less than six months has an income that is 71 percent of their poverty line. This increases to 94 percent as the respondent has been off assistance for more than one year. This is encouraging but once again, it must be understood that those who left first were potentially the best equipped to leave early. It is important to note that income as a percentage of the poverty line is always higher for those respondents not receiving assistance. This holds across all categories examined.

**Table 4: Income as Percentage of Poverty Line**

	<b>All Respondents</b>	<b>On Assistance</b>	<b>Off Assistance</b>
<b>Race:</b>			
White	<b>68</b>	<b>46</b>	84
Non-white	<b>60</b>	<b>41</b>	90
<b>Urban/Rural:</b>			
Urban	<b>59</b>	41	86
Rural	<b>67</b>	43	86
<b>Marital Status:</b>			
Single	<b>59</b>	41	85
Married	<b>68</b>	44	89
<b>Education:</b>			
Less than High School	<b>46</b>	40	<b>61</b>
High School Graduate	<b>59</b>	41	<b>80</b>
More than High School	<b>81</b>	48	<b>111</b>
<b>Car Ownership:</b>			
Ownership/Access	<b>72</b>	<b>47</b>	<b>95</b>
No Car	<b>48</b>	<b>39</b>	<b>67</b>
<b>Work Requirement:</b>			
Required to Work		41	
Work Exempt		42	
<b>Length of Time Off Assistance:</b>			
1-6 months			<b>71</b>
6-12 months			<b>85</b>
More than 12 months			<b>94</b>

Sample sizes differ by category and are available upon request

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## Conclusion

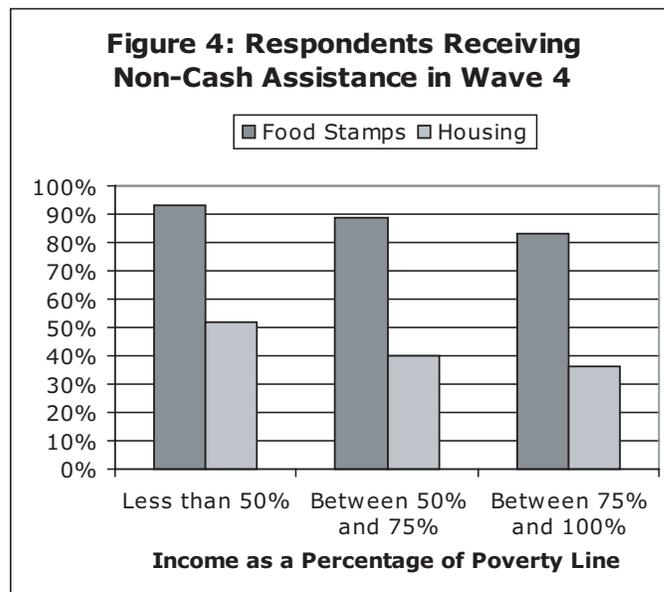
While it may be discouraging to examine the poverty rates of all those receiving Families First cash assistance and determine that 93 percent are in poverty, there is some encouraging news. Poverty rates are consistently lower for respondents who were not receiving assistance at the time of the Wave 4 survey. This suggests that respondents are not leaving welfare and falling immediately into a state of poverty. This is also supported by the finding that poverty rates decline as the length of time off assistance increases.

The high poverty rate of those receiving assistance may also be an indicator that the Families First program is being targeted at the right group. The poverty rate for Tennessee in 2002 was 14.8 percent. However, in 2002, only 3.3 percent of Tennessee’s population was receiving Families First benefits.<sup>7</sup> Since more people in Tennessee are in poverty than are receiving assistance, then ideally all of those receiving Families First assistance should be in poverty.

It is also encouraging to see that income as a percentage of the poverty threshold is higher for those not

receiving cash assistance as of Wave 4 than for those still receiving assistance. This suggests not only that welfare leavers avoid falling into poverty but that their income increases as well. Further, it is reassuring to see that as the length of time off assistance increases, income as a percentage of the poverty line increases on average.

One piece of unfortunate news is the finding that among survey respondents in poverty, total family income is only 39 percent of their poverty thresholds as of Wave 4. This suggests that the average respondent in poverty is in severe poverty. While this finding may be disheartening, it does reveal that the Families First program appears to be rather well-targeted. As noted earlier, the measure of income used in the Census definition of poverty does not include non-cash assistance such as food stamps and housing assistance, which increase the actual incomes of the families. In Wave 4, 91 percent and 47 percent of the respondents in poverty were receiving food stamps and housing assistance, respectively. We can see from Figure 4 that the poorest of the poor were more likely to receive these non-cash benefits, so the depth of their poverty is somewhat lessened by the non-cash assistance.



<sup>7</sup> Authors’ calculations based on September 2002 data on caretakers, eligible adults, or eligible children in an open Assistance Group as a percentage of the 2002 Tennessee population.

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