

# Comparing Standards of Economic Distress

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## Economic Distress in Washington State

Who is considered “economically distressed” in Washington State? This is a difficult question to answer, since there is not an entirely objective or universally accepted measure of “economic distress.” Every measure is arbitrary to some degree. This research brief compares three possible measures of economic distress to assess which families are economically distressed in Washington State. The three measures are: (1) a 2001 standard developed by Diana Pearce and Jennifer Brooks of the University of Washington (heretofore called the “Pearce-Brooks Standard”)<sup>1</sup>, (2) the Federal Poverty Level (FPL)<sup>2</sup>, and (3) 200 percent of FPL. Then, using Washington State Population Survey data along with these alternative standards of economic distress, this brief will evaluate differences in the measures by family type and by region.

Overall, and on a statewide level, the Pearce-Brooks Standard provides estimates of the incidence of economic distress that are very close to those estimated by the more generally used 200 percent of FPL standard. In addition, given its overall proximity to the 200 percent FPL standard, it provides a basis for identifying economic distress on a sub-state, regional basis and with appropriate consideration of differences in certain family characteristics. The FPL standard makes no distinction among regions and is sensitive only to family size.

## Measuring Economic Distress

What are the basic differences between the measures of economic distress? The Pearce-Brooks standard is constructed by considering an individual’s family structure and the costs of living in a local area. Family-specific costs such as child care for young children are included in the measure. These costs are then used to create a threshold. For purposes of comparison with 200 percent of FPL, those families and individuals with incomes below that threshold are considered to be economically distressed. This threshold, as with all thresholds, is in some sense arbitrary. It takes into account generic family and individual needs, but a given family or individual might have specific costs that would make them economically distressed at a different threshold. In addition, we should note that “economic distress” is a spectrum and family income that is one dollar above the threshold is quite different from having income equivalent to twice the threshold. However, for purposes of this paper, we use the Pearce-Brooks standard and 200 percent of FPL as benchmarks indicating economic distress.

The 200 percent of FPL measure is sometimes used as a reference point for identifying “near poor” or poor families. One advantage of using 200 percent of FPL is that it is simple: there is one measure that varies by family size. In addition, 200 percent of FPL is often used for public

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1 Pearce, Diana (2001), with Brooks, Jennifer. The Self-Sufficiency Standard for Washington State.

2 The “FPL” is actually a general term which may refer to either a) the federal poverty threshold, an income level that varies by family size and number of children or b) the federal poverty guidelines, an income level based on the number of people in a family unit. The poverty thresholds are calculated annually by the Census Bureau to determine the number of Americans in poverty. The poverty guidelines are a simplified version and are used for administrative purposes, such as determining eligibility for certain programs (U.S. Department of Health and Human Services, <http://aspe.hhs.gov/poverty/faq.shtml>).

programs and policy and many people are familiar with the term. However, 200 percent of FPL has several weaknesses. The first is that the costs are considered constant across the entire contiguous U.S.; someone living in Bellevue or Seattle is assumed to have the same housing, utility, and transportation costs as someone living in Republic (Ferry County) or Cloverland (Asotin County). Second, costs do not vary for families that have young children compared to families with older children. Finally, the FPL is based on a food budget developed in the 1960's and assumes a fixed ratio between food costs and other costs such as housing. The FPL is updated on an annual basis to reflect increases in the costs of the 1960's food budget. While incomes at 200 percent of FPL

**Table 1: Comparing Poverty Measures**

	Ferry County (including the city of Republic)			Bellevue, Juanita, Kirkland and Redmond		
	Adult	2 Adults + infant	2 Adults + teenager	Adult	2 Adults + infant	2 Adults + teenager
<b>Construction of Self-Sufficiency Standards</b>						
Monthly Costs						
Housing	382	497	497	767	971	971
Child Care	0	476	0	0	675	0
Food	168	402	469	168	402	469
Transportation	230	416	416	259	457	457
Health Care	69	278	283	69	278	283
Miscellaneous	85	207	166	126	278	218
Taxes	172	426	292	301	640	451
Earned Income Tax Credit						
(-)	0	0	-52	0	0	0
Child Care Tax Credit (-)	0	-40	0	0	-40	0
Child Tax Credit (-)	0	-42	-42	0	-42	-42
Monthly Total	\$1,107	\$2,620	\$2,029	\$1,691	\$3,620	\$2,807
Self-Sufficiency Wage (Hourly)	\$6.29	\$7.44	\$5.76	\$9.61	\$10.29	\$7.97
		per adult	per adult		per adult	per adult
<b>Self-Sufficiency Standard for Year</b>	<b>\$13,283</b>	<b>\$31,440</b>	<b>\$24,350</b>	<b>\$20,287</b>	<b>\$43,444</b>	<b>\$33,686</b>
<b>100% FPL</b>	<b>\$9,214</b>	<b>\$14,255</b>	<b>\$14,255</b>	<b>\$9,214</b>	<b>\$14,255</b>	<b>\$14,255</b>
<b>200% FPL</b>	<b>\$18,428</b>	<b>\$28,510</b>	<b>\$28,510</b>	<b>\$18,428</b>	<b>\$28,510</b>	<b>\$28,510</b>
<b>Self-Sufficiency - 200%FPL</b>	<b>\$5,145</b>	<b>-\$2,930</b>	<b>\$4,160</b>	<b>-\$1,859</b>	<b>-\$14,934</b>	<b>-\$5,176</b>

provide a more realistic threshold of economic distress compared to 100 percent of FPL, both measures have been criticized for not reflecting the reality of the costs facing today's individuals and families.

### Elements of the Pearce-Brooks Standard

The Pearce-Brooks Standard examines the variation in what it actually costs to live in communities throughout Washington. Costs considered include housing, child care, food, transportation, health care, taxes, and some miscellaneous costs (includes clothing, and other essential household items and related expenses). Table 1 show these costs for Ferry County (where the city of Republic is located) and the Bellevue area for an adult alone, for two adults and an infant, and for two adults and a teenager. Some costs (or cost offsets), such as the child care tax credit and the child tax credit, are constant across the state. Others, such as health care and food costs, are listed as constant across the state because the information is only available at the state level. Still other costs, such as housing, child care, transportation, miscellaneous costs, and taxes differ according to the local costs in an area.

The Pearce-Brooks Standard varies considerably depending on location and family composition. Looking at Table 1, one can see that living expenses for one adult are 53 percent higher in Bellevue than in Republic (\$20,287 compared to \$13,283). A married couple with an infant would need \$31,440 to live in Republic, while that same family would need \$43,444 to be self-sufficient in Bellevue. The costs of having an infant are assumed to be higher than older children due to the high cost of child care. Teenagers are assumed not to have child care costs but they do have slightly higher food and health care costs. A married couple with a teenager would need an annual income of \$24,350 in Republic and \$33,686 in Bellevue.

Income at the poverty level for 2001, as defined by the federal government, is \$9,214 for an adult under 65 years of age and \$14,255 for a married couple with a child regardless of the age of the children or the place of residence. Income at the Federal Poverty Level is closer to the Pearce-Brooks Standard in Republic than it is in Bellevue.

Many public programs have long determined that the Federal Poverty Level was too low and have often adopted thresholds between 100 and 200 percent of the FPL to identify needy or economically distressed individuals and families. For single residents in Republic, 200 percent of FPL exceeds the Pearce-Brooks Standard by over \$5,000. However, for single adults in Bellevue the Pearce-Brooks Standard exceeds 200 percent of the FPL by nearly \$2,000. Regional variation, therefore, is important when establishing income thresholds. As shown in Table 1, using 200 percent of FPL as an indicator of economic distress may over-estimate need in rural areas such as Republic for single adults and families with older children and under-estimate the relative need for families with infants and those living in more urban areas such as Bellevue.

### A Statewide Look at Who is Economically Distressed by Family Type

Using State Population Survey data, we compare families' incomes to: a) 100 percent of FPL, b) 200 percent of FPL, and c) the Pearce-Brooks standard. Statewide, about 11 percent of the population is in families with incomes below the poverty level (see Figure 1). The two measures of economic distress, i.e. 200 percent of FPL and the Pearce-Brooks Standard, each indicate about 26 percent of Washingtonians are economically distressed. One might expect, however, that there would be considerable variation across regions and by family size.

Figure 1

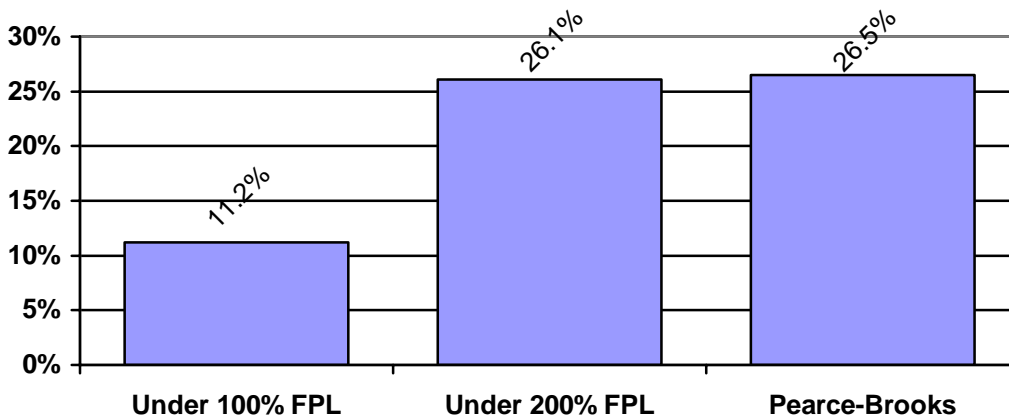
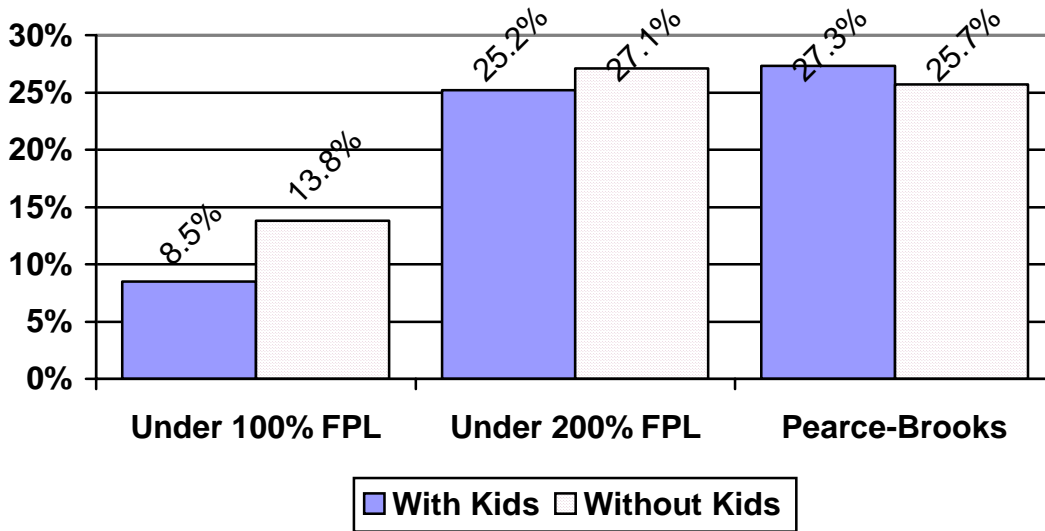


Figure 2



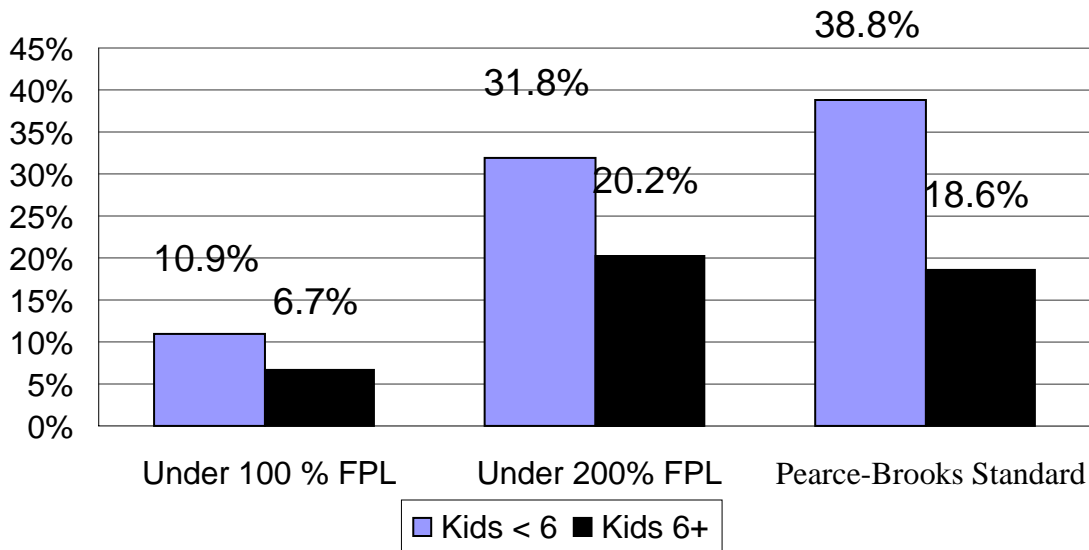
Fifty-percent of Washingtonians live in a family where there are children (under 18) present in the household. Figure 2 shows individuals living in households with and without kids. While the differences between the measures of economic distress are not statistically significant, the trends exhibited by the two FPL measures and the Pearce-Brooks measure are in the expected direction. Both FPL measures show that individuals in families without children are at a greater risk of being economically distressed. However, after considering family structure and local costs, i.e. using the Pearce-Brooks standard, the trend flips with individuals in families with kids appearing to be at greater risk of being economically distressed than those who are not.

As stated above, 50 percent of Washington’s residents are in families with children. Among these, 43 percent have a young child (under age 6) present. Looking more closely at families with children, one can see that those with young children are more likely to be in poverty or economically distressed (see Figure 3). More than 38 percent of people in families with kids younger than 6 years are defined as economically vulnerable, using 200 percent of FPL, compared to 18.6 percent of people in families where the children are all 6 years of age or older. This difference is partially attributable to parental age differences; younger parents are more likely to be in lower paying jobs. Adults in families with young children average almost 33 years old, compared to an average age of 42 years when the children are 6 years of age or older. Using the self-sufficiency standard to define economic vulnerability, one finds that the rates of economic vulnerability are higher for families with younger children<sup>3</sup> and slightly lower for those families with older children<sup>4</sup> compared to what is found using the 200 percent of FPL measure.

<sup>3</sup> The difference between the two rates is significant at the 10 percent level

<sup>4</sup> The differences between the two rates is not significant at the 10 percent level

Figure 3



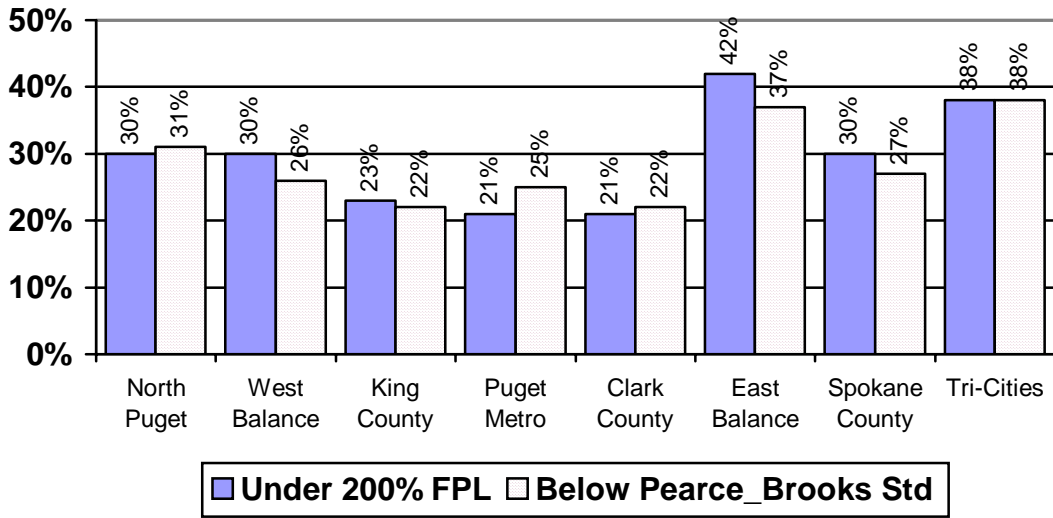
### Regional Differences

The rates of economic distress using the 200 percent of FPL measure vary by region<sup>5</sup>, ranging from 21 percent (Clark County and Puget Sound Metro) to 42 percent (East Balance) (see Figure 4). After adjusting for local costs (using the Pearce-Brooks standard), the regional variation in economic distress ranges from 22 percent (King and Clark counties) to 38 percent (Tri-Cities). By using the Pearce-Brooks standard, instead of 200 percent of FPL, the gap between regions with the highest rates and lowest rates of insufficiency declined from 21 percentage points to 16 percentage points.

<sup>5</sup> The 2004 WSPS allows analysis by eight regions. The names used for each of those regions and the names of the counties included in each region are as follows:

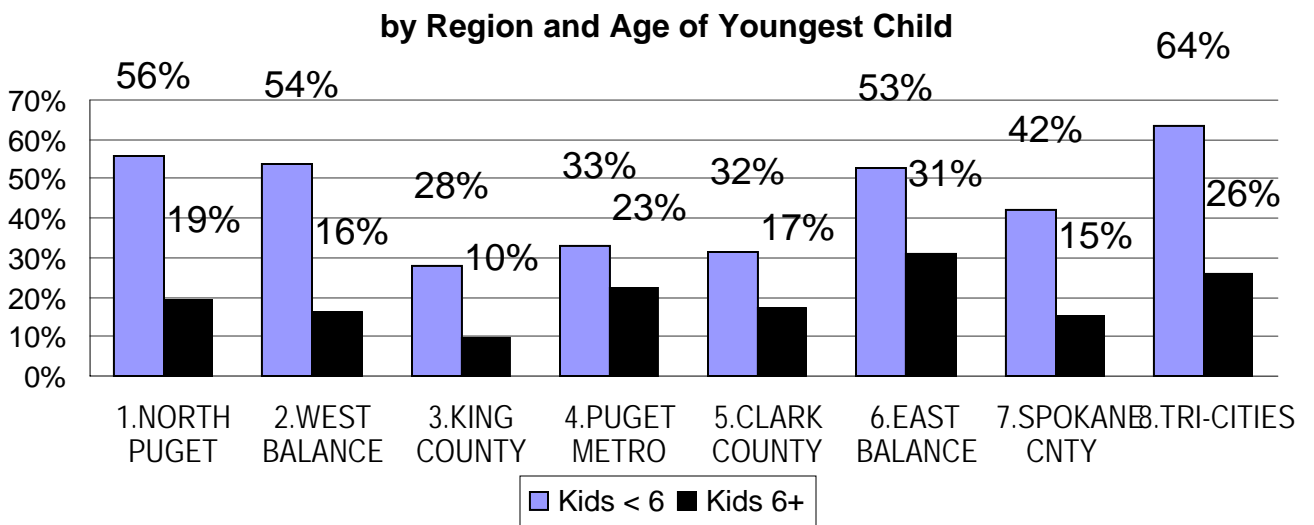
- North Puget (Island, San Juan, Skagit, Whatcom)
- West Balance (Clallam, Cowlitz, Grays Harbor, Jefferson, Klickitat, Lewis, Mason, Pacific Skamania, Wahkiakum)
- King County (King)
- Puget Metro (Kitsap, Pierce, Snohomish, Thurston)
- Clark County (Clark)
- East Balance (Adams, Asotin, Chelan, Columbia, Douglas, Ferry Garfield, Grant, Kittitas, Lincoln, -Okanogan, Pend Oreille, Stevens, Walla Walla, Whitman)
- Spokane County (Spokane)
- Tri Cities (Benton, Franklin, Yakima)

Figure 4



Using the Pearce-Brooks standard, we are able to see regional and family type variation in economic vulnerability. For families with young children in the more rural areas of the state, more than half of residents are in families where the income is not financially self-sufficient under the Pearce-Brooks measure (see Figure 5). For families where the children are all school age or older, the Pearce Brooks sufficiency rates are much lower than for families with children under six.<sup>6</sup>

Figure 5 Percentage Below Pearce - Brooks Self-Sufficiency



<sup>6</sup> Rates of insufficiency are for families with younger and older children are significantly different in all regions at the 10 percent level except Puget Metro.

## **Conclusion**

In 2001, roughly 26 percent of Washington State residents statewide were considered economically distressed under both the 200 percent FPL standard and the Pearce-Brooks Standard. However, the similar rates at the state level masked regional and family type differences between the two measures.

The actual cost of raising young children, according to the Pearce-Brooks Standard, is greater than the 200 percent of FPL measure suggests. The 200 percent of FPL measure, while varying by family size, does not account for variations in family structure, perhaps most importantly child care costs for young children.

While both measures of economic vulnerability find that rural areas in Washington have higher rates of economic distress than urban areas, the 200 percent of FPL exaggerates regional differences in economic distress because it does not take local costs into account.

In using the Pearce-Brooks standard, one knows specifically what is being measured and that the costs are real costs that local individuals are experiencing. It is particularly useful for analysis among or between subpopulations, such as regions and family types. However, the resources associated with creating the Pearce-Brooks measure are such that it is not practical for most researchers, and would be cumbersome to update annually. In addition, while the research underlying the Pearce-Brooks Standard -- unlike the 200 percent FPL standard -- endeavors to provide an empirical basis for determining a threshold for economic distress, it remains subjective in many respects. However, this study shows that, as an overall statewide measure, the 200 percent of FPL standard is consistent with the more detailed Pearce-Brooks standard. The latter adds an important regional and family characteristics dimension to the FPL standard. This study also reminds us that caution should be used in using the FPL to make inferences beyond state level estimates.