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The Use and Misuse of Income Data and the Rarity of Extreme Poverty in the United States

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<u>Key Findings and Policy Implications</u>

This paper examines extreme poverty in the United States, defined as living on less than $2 per-person per-day. It uses *administrative data* from IRS records (form 1040, W-2 and 1099-R returns) and program data on SNAP, subsidized housing, SSI and DI to supplement and correct *survey data* from the Survey of Income and Program Participation and Current Population Survey. The study finds that:

- The financial circumstances of extremely low-income households, as measured by survey data, are generally not extreme after correcting for unreported transfers, in-kind transfers, earnings estimates based on reported work hours at minimum wage rates, and unreported asset holdings. More than 90% of households with survey-reported cash income below $2/person/day are misclassified after correcting for these errors and omissions.
- Using adjusted measures that correct for errors and omissions in survey data, the rate of extreme poverty is estimated at no more than 0.24%, based on 2011 SIPP data, and no more than 0.12%, based on 2011 CPS data. These rates are far lower than the 2% to 3% rates that come from unadjusted survey-reported income. And even these estimates miss potential under-reporting of TANF, unemployment insurance, workers' compensation, and veterans' benefits.
- Many of the households that were misclassified in past analyses appear to be even better off than the average American household based on numerous indicators of material well-being. Among the households remaining in extreme poverty after these adjustments, 90% are single individuals. None have children.
- The adjusted estimates of extreme poverty in the U.S. are similar to estimates from past research using consumption data. This reconciles, at least in part, the past inconsistencies in income-based and consumption-based measures of poverty.

The results demonstrate that households at the very bottom of the income distribution in raw survey data are likely to be outliers, and to have disproportionate under-reporting and omission of income sources relevant to their financial circumstances. The results also indicate that means-tested transfers, while underreported in surveys, are well-targeted to households that might otherwise suffer from extreme poverty.

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