Reducing Poverty
Four Key Policy Areas that Need More Policy and Foundation Attention

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by Sharon Parrott

Introduction

Authors Note: A version of this paper was written at the request of the Charles Stewart Mott Foundation, which asked the Center (and eight other researchers and analysts) to write about policies that hold promise in reducing poverty. There are some important policy areas that would reduce poverty and hardship but that either already are well covered by other foundations or that do not have as great a need for substantial further research, policy development, or advocacy. We do not address those areas here. Instead, we focus on several policy areas that meet two criteria —(1) they hold significant promise for reducing the extent or depth of poverty; and *(2) increased foundation investment in research, policy development and/or advocacy is needed to craft the most effective policies and/or to increase the prospects for the policies to be adopted.*

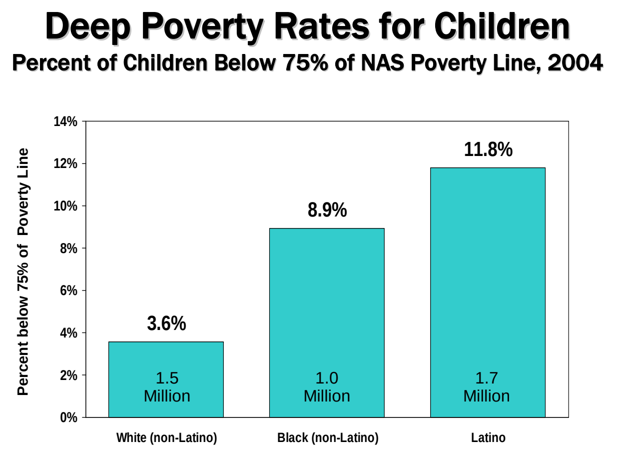
There are many policy changes that could reduce poverty. The first necessary step, however, is a decision by policymakers — and the public — to make it a priority to reduce poverty and increase opportunities for those on the bottom rungs of the economic ladder. We focus our discussion here on four key areas where we think that more policy work, advocacy, and/or research are needed to bring about policy improvements that could reduce poverty and expand opportunity and where foundations are not already covering the waterfront. The four areas are: 1) addressing the needs of children in what we refer to as "deep poverty;" 2) expanding work opportunities and filling gaps in "making work pay" policies; 3) strengthening housing assistance; and 4) addressing elderly poverty, which is more extensive than commonly believed.

Each section begins with a discussion of why that policy area is important and merits greater attention, followed by a brief discussion of key policy improvements to pursue in that area.

I Addressing the Needs of the Poorest Children and Their Parents

In 2004, 4.3 million children had incomes below *three-quarters* of the poverty line, and 1.7 million lived below *half* of the poverty line. (Note: In most of our analyses in this section, we measure poverty in accordance with the recommendations of a National Academy of Sciences panel convened in the 1990s.[1] These analyses are based on data from the Census Bureau and the Urban Institute.)

Figure 1



Source: CBPP analysis of March 2005 CPS and calendar-year 2004 NAS and TRIM files.

Despite the large numbers of children living in "deep poverty," little attention has been paid to this group in recent years. To the extent that low-income programs have been expanded or strengthened over the last decade, the focus has been on low-income working families modestly below or modestly above the poverty line, rather than these poorer children and their families.

Families living in deep poverty are not a monolithic group. Many parents work during the year but face periods of joblessness. Some of these families include parents with disabilities or illnesses that limit their ability to succeed in the labor market.

There is a broad body of research showing that poverty has adverse effects on children. Poor children are more likely than others to be in poor health and to have difficulty in school. When families live in deep poverty, their ability to make ends meet, maintain stable housing arrangements, and afford nutritious food is more constrained.

Of particular concern, many children are in deep poverty for more than one year. Among children in families with cash incomes below half the official poverty line in 2002, some 61 percent had incomes that low the previous year, and 60 percent had incomes that low the following year.

Rates of deep poverty are highest among minority children. In 2004, some 8.9 percent of all African-American children and 11.8 percent of all Latino children had incomes below 75 percent of the poverty line, compared to 3.6 percent of white children. The highest rates of deep poverty are found among children in immigrant families. Some 12.9 percent of these children — more than 1 in every 8 — had incomes below three-quarters of the poverty line. This includes both children who are immigrants themselves and citizen children who live with a parent who is a non-citizen. The majority of very poor children in immigrant families are themselves citizens.

Families in deep poverty commonly face serious housing problems. In 2006, more than 2 million poor renter families with children spent more than half of their incomes on housing, and about half of these families have cash incomes below 50 percent of the official poverty line. These high housing cost burdens can place intense financial strain on families — forcing them to choose

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[1] "Income" includes cash income and non-cash and tax-based benefits such as food stamps and the earned income tax credit. Three types of expenses are subtracted from a family's income before determining whether the family is below a certain poverty threshold — taxes the family pays, work expenses including child care, and out-of-pocket medical expenses. The poverty line used here was developed by the Census Bureau and represents the costs of meeting a family's most basic needs, including food, clothing, shelter, utilities, and other basic items, and varies geographically based on differences in housing costs.

between paying rent and heating bills and securing other necessities — and can push families into poor quality housing that may cause or exacerbate health problems. In addition, when poor families face very high housing cost burdens, their housing situations can become unstable, leading to frequent moves that can disrupt children's schooling and parents' employment and increase the risk of homelessness.

Safety Net Does Less to Protect Children from Deep Poverty than in the Past

The safety net lifts a smaller share of very poor children out of deep poverty now than it did in the mid-1990s. In 1996, means-tested benefits (including refundable tax credits) lifted 88 percent of children who otherwise would be very poor above half the poverty line. By 2004, this figure had fallen to 74 percent.

The safety net has grown weaker in this regard in part because fewer very poor families receive basic cash income support than prior to enactment of the 1996 welfare law. The old AFDC program was widely regarded by liberals and conservatives alike as seriously flawed, but it did provide cash aid to a large share of very poor children and their families.

The TANF block grant that the 1996 welfare law established provides a fixed sum of money to states that they can use to fund cash assistance to families, welfare-to-work programs, child care assistance, and a broad array of other services. The TANF block grant has been funded at the same nominal dollar level since the mid-1990s, however, without any adjustment for inflation, so TANF funding levels have eroded markedly.

Under TANF, states have broad flexibility to design their programs and do not have to provide cash assistance to any particular family or set of families. They have used this flexibility to institute many policy changes, including requiring more parents to participate in welfare-to-work programs. In addition, many states have toughened sanction policies so families lose all cash assistance when a parent does not participate in such programs. These sanctions are sometimes imposed before a state knows why a family did not meet the requirements, and research has shown that many parents who are sanctioned have serious barriers to employment and program participation, including physical and mental impairments. Many states have also made it more difficult for families to apply for aid.

At roughly the same time that states were first implementing TANF in the 1990s, states and the federal government were expanding supports for working families. States and the federal government expanded funding for child care, the federal EITC was increased, and states changed TANF rules so that families lost less in benefits as their earnings rose. The net results of the expanded work supports, a strong economy, and TANF rules that were both more work-focused and more restrictive were two-fold. Employment among single mothers increased substantially during the 1990s (some of these gains were subsequently lost in this decade, though employment rates among this group remain higher than in the early and mid 1990s). But cash assistance for poor families has become far less available, leaving many of the most disadvantaged families with *neither* earnings *nor* cash aid — and in deep poverty.

TANF cash assistance programs now provide assistance to only about *four in every ten* families poor enough to qualify for assistance. (In most states, the income limits are well below the poverty line.) By contrast, the former AFDC program generally served between 75 and 85 percent of poor families that qualified.

Research on current and former TANF recipients has documented that many who do not succeed in moving from TANF to work — including many who are sanctioned — are parents with serious barriers to employment, including physical and cognitive impairments and mental health problems. Data also show that many families that in the past would have received AFDC when they were between jobs do not receive TANF during these temporary periods of need.

Where To Go From Here

Policymakers, researchers, and policy analysts need to pay greater attention to the needs of very poor children and their parents — and to how to address these needs more effectively so these families and children will have greater opportunity and face less severe hardship. The Center on Budget and Policy Priorities has recently begun work with researchers and analysts with expertise on these issues to develop a policy agenda to better meet these families' needs, the major elements of which are likely to include:

Basic support for very poor families with children. Various policy changes could help provide stable, safe homes, adequate nutrition, and other basics for children with wholly insufficient incomes, including:

- *Improvements in the TANF program to ensure that families have access to assistance when they badly need it.* For example, the TANF structure rewards states that reduce their caseloads, regardless of whether poverty and need are rising or falling. States should not be rewarded when caseloads fall unless poverty is declining and the state is providing aid to a large share of very poor families. The long-term decline in federal TANF funding in real terms also needs to be addressed.

- *Creation of a new program (or a new mechanism within TANF) to meet the needs of families in which parents or children have disabilities*, which would include intensive, tailored services to help these parents surmount the formidable barriers to employment they face. Large numbers of families sanctioned off TANF or removed due to time limits have physical or mental impairments that limit their ability to secure employment and can impede their ability to comply with the rigid TANF work rules. States need dedicated funding to provide assistance to families in which a parent or child has a disability. States should have the flexibility to design a plan for each such family that addresses a range of goals including parental employment, housing stability, and child well-being.

- *Reforms to the unemployment insurance system to ensure that more low-wage workers have access to unemployment benefits during periods of joblessness.* (This is discussed further on page 6.)

- *Expansion of the child tax credit to children at lower income levels.* Currently, families with earnings below about $12,000 are ineligible for the child tax credit. In addition, a single parent with two children needs income of $22,300 to qualify for the full $1,000 per child that the credit provides, and a married couple with two children needs income of nearly $25,000. If the child tax credit were available to families with earnings at lower levels, its anti-poverty impact would be substantially greater.

Employment services. Very poor families are a heterogeneous group. Some parents have work experience but could secure better jobs if they had additional work-focused vocational training or academic credentials. Other parents face very significant barriers to employment that hinder their employment prospects.

Some models are emerging for how to improve employment outcomes for poor parents. For example, programs that help parents attain academic credentials from community colleges and other institutions appear effective. Some promising strategies to help parents with serious barriers to employment also are emerging, but more testing of these approaches is needed. In a recent Urban Institute paper, "Support Work for Low-Income People with Significant Challenges," Pamela Loprest and Karin Martinson present a proposal to provide new funding to develop, implement, and evaluate new strategies for helping such individuals prepare for and move toward employment.

Child-focused programs. To better enable children in very poor families to have the tools they need to reach their full potential, additional supports that focus on child development are important, including quality and consistent child care arrangements that are not suddenly threatened when parents move in and out of jobs. Child care, early education, youth programs, and after-school programs represent areas where appropriate investments could improve the life chances for children in very poor families. (Child care and early education are discussed in more detail in the next section.)

Housing assistance. Housing assistance provides vital support by stabilizing a family's housing, which has important benefits for children's education and parents' ability to work. Housing assistance is highly targeted on very poor families and provides a substantial benefit that is quite effective at lifting families out of deep poverty, but only a small share of low-income families eligible for housing assistance receive it. These issues are discussed in more detail in the housing section of this paper.

Garnering political support for measures to strengthen assistance for the poorest families, most of whom do not have consistent employment, presents substantial challenges. Yet these are among the most vulnerable children in the nation, and if we are to make the rhetoric of "leaving no child behind" into something real, then research, policy development, and advocacy resources will need to be directed to the needs of these families — and to ways to broaden opportunities for these children.

It may be noted that a key reason that analysts project a slowdown in the rate of economic growth in coming decades is that, due to the aging of the population, U.S. labor-force growth will slow markedly. (The rate of economic growth essentially equals the rate of labor force growth plus the rate of productivity growth.) This means that the U.S. economy will need all potential workers to be as productive as possible. These realities may improve prospects to advance an effective policy agenda to brighten the outlook for very poor children.

II Making Work Pay and Boosting Opportunity

Despite major strides, large gaps remain in supports for low-income workers, and the nation continues to under-invest in areas that could boost economic opportunities for low-income children and adults. Two types of policy interventions need strengthening: "work support" programs, which reduce poverty, provide positive work incentives that boost work activity, and improve employment outcomes for low-wage workers; and investments in early education and programs that make college and other postsecondary education programs more affordable to low-income youth, which can improve future economic prospects for these individuals.

Where To Go From Here

Making Work Pay: The Unfinished Agenda

Over the past 25 years, supports for low-income working families have expanded. The Earned Income Tax Credit has been greatly enlarged, funding for child care assistance has increased, and children no longer have to receive cash assistance to qualify for public health insurance through Medicaid or SCHIP. But significant gaps remain. The following policy options seek both to reduce economic hardship and to increase the rewards for working. (Note: We do not include policy options here to increase health care coverage for low-income working families, not because they are unimportant, but because other foundations already invest heavily in this area.)

Expand the EITC for workers not raising children. These workers currently receive very little help from the EITC and almost none from other parts of the safety net. The maximum EITC for workers not raising children, $438 in 2008, is *less than one-sixth* the size of the maximum EITC for a family with one child. Furthermore, the EITC for workers without children begins to be reduced when income rises above $7,160 in 2008 for single workers, which is less than two-thirds of the poverty line. A single childless worker with income at the poverty line is eligible for an EITC of just $142, less than the worker owes in federal income and payroll taxes. Unlike families with children, poor workers without children continue to be taxed deeper into poverty. Moreover, when the latest minimum wage increase takes full effect in 2009, a full-time minimum wage worker who is not raising a child (in his or her home) will be ineligible for *any* wage supplementation through EITC.

For the EITC to serve as an effective work incentive for these individuals — many of whom have low labor-force participation rates or are in the underground economy, and some of whom are non-custodial parents who have difficulty supporting their children — it needs to be much more robust. Creating work incentives for this group is particularly important if we wish to boost labor-force participation among minority men.

Rep. Charles Rangel, chair of the House Ways and Means Committee, has included a substantial increase in the EITC for this group in a broader tax reform proposal he has introduced, and other lawmakers similarly have proposed expansion of this component of the EITC. There are obstacles to progress, however, because there is no strong constituency for this improvement and until recently, there has been little advocacy for it].

Ensure that low wage workers have access to unemployment benefits when they lose their jobs. The unemployment insurance system is supposed to provide temporary benefits (typically up to 26 weeks) to workers who lose their jobs through no fault of their own. Yet in June 2008, only 37 percent of unemployed workers received unemployment benefits. Low wage workers are particularly likely to be ineligible for benefits because of various outmoded rules that many states have in place. These restrictive rules disqualify many low-income workers (especially female workers) who are laid off. A Congressionally chartered blue-ribbon commission recommended measures in the 1990s to remedy these problems, but the recommendations have never been acted upon. Legislation to address the worst of these problems finally passed the House this year and could be seriously considered by a new administration and congress.

Help low-income working parents afford child care. To work, parents need safe and affordable child care for young children as well as for school-age children during before- and after-school hours and summer months. Because child care subsidies help families afford more stable child care arrangements and reduce the "cost" of working, research has shown they have a positive effect on employment rates. Due to a lack of funding, however, child care subsidy programs serve only a relatively small fraction of the low-income working families eligible for such assistance. As a result, many low-income working parents face very high child care costs. Census data show that in 2005, families with (cash) incomes below the poverty line who incurred child care costs spent 29 percent of their cash incomes on child care, on average, compared to 6 percent for families with income above twice the poverty line. (The average cost for full-time infant care in a licensed child care center in 2006 ranged from $4,388 to $14,647.) Aggravating this problem, federal funding for child care programs (including funding for the child care block grant and TANF funds that states use for child care) for low-income families has fallen by about 18 percent since 2002, after adjusting for inflation.

Improving Opportunities Through Early Education and Financial Aid for Post-Secondary Education

Early education. Quality child care and early education programs also serve an important second purpose — promoting healthy child development and school readiness. Research has documented that high-quality child care and early education programs can improve low-income children's educational outcomes. Some states have begun investing more in pre-K programs, but many low-income children continue to lack access to such programs. In addition, investments in pre-K programs must be paired with adequate funding for, and coordination with, child care assistance because many children need child care for a full day. Many pre-kindergarten programs are only part-day, part-year programs, and most pre-K programs serve only 4 (or, in some cases, 3 and 4) year-old children. Younger children also need high-quality and consistent early care and education.

Making post-secondary education more affordable for low-income students. High school graduates from low-income families are less likely to attend college — and among those who attend, less likely to complete college — than graduates at higher income levels, even after taking educational attainment into account. The cost of college is a significant factor in this disparity.

Some mistakenly believe that government and school-based aid insulates low-income students from high college costs. In fact, data from the National Center for Education Statistics show that the large majority of low- and moderate-income undergraduates have significant unmet financial need even *after* taking into account governmental and institutional aid, loans, and work study.

Providing Opportunities to the Most Vulnerable Children — Those at Risk of Abuse and Neglect

Providing greater economic security to vulnerable families, improving employment programs for parents, ensuring that families have access to needed substance abuse and mental health treatment, and doing more to support work can reduce the factors that place children at risk for abuse or neglect. Still, improvements in the child welfare system — the system charged with helping children who are abused and neglected and working with vulnerable families to prevent abuse and neglect — are needed if the most vulnerable children are to have the opportunity to meet their full potential.

HHS data show that over the last decade, an average of between 875,000 and one million children have been determined by public child protection agencies to be abused or neglected each year. (Estimates of the true incidence of maltreatment suggest that up to three times as many children are abused or neglected.) Of those children who are reported and found to be maltreated, nearly 40 percent get no services at all — not foster care, counseling, or family supports. Those who do get some service often do not get the appropriate services. Research indicates that half of children involved with the child welfare system have clinically significant behavioral or emotional problems, but only about a quarter receive mental health services. Similarly, research indicates that about three-quarters of parents of children in foster care need substance abuse treatment, but less than a third gets it.

Child abuse and neglect early in life is associated with increased likelihood of subsequent substance abuse, mental health problems, unintended pregnancy, intimate partner violence, lower educational attainment, involvement with the criminal justice system, homelessness, and poverty. Promoting opportunity for these children will require action at the federal, state, and local levels to build upon promising practices that: (1) increase prevention and early intervention services to keep child and family crises from occurring and recurring; (2) increase specialized treatment such as family counseling, mental health services, and substance abuse treatment for children and families who need them; (3) increase support such as financial help, child care, and family counseling for families following a crisis; (4) enhance the quality and training of child welfare caseworkers; and (5) ensure that states are better held accountable for outcomes.

There is broad bipartisan support in Congress for improving child welfare programs, but securing the needed resources remains a challenge. Advocacy efforts will be needed in the coming years if prospects for these children are to improve significantly.

The federal government should do more to make college affordable for low-income students. It can increase Pell Grants which, despite a recent increase, still leave students with large unmet needs. And it can extend federal tax credits for higher education costs that are available to students at higher income levels to low-income students as well, by making these tax credits refundable. The federal tax code currently includes two tax credits that help offset tuition costs for students enrolled in higher education — the Hope Credit and the Lifetime Learning Credit — but families that earn too little to owe federal income taxes cannot benefit from them. More than 4 million high school age children — or more than one-quarter of all such children — have incomes too low to benefit from these credits. (In addition to these tax credits, middle and upper-income families also receive sizable tax subsidies for higher education through tax-favored savings accounts, known as "529 plans.")

Extending the tax credits to lower income families — and broadening the credits so they can be used to defray costs such as books, as well as tuition, which is important for low-income students attending community colleges — also would help older, "non-traditional" low-income students, including many low-income parents. It would better enable them to secure more education so they can upgrade their skills or earn a degree or occupational certificate that can lead to higher-paying jobs with more opportunity for advancement.

The current structure of federal tax subsidies for higher education is heavily skewed toward students from middle- and upper-income families who generally would go to college anyway, making them an economically inefficient use of resources. Providing subsidies to lower-income students would have a larger impact on their decision to attend school and could help reduce the rising income inequality in the United States.

III Housing Assistance: An Often-Overlooked Strategy that Can Reduce Poverty, Support Work, and Aid Vulnerable Families with Children

The average cost of a modest two-bedroom apartment in the United States now is $900 per month, an amount equal to *more than 60 percent* of the income of a three-person family living at the federal poverty line. This is more than low-income families generally can afford.

Census data show that in 2006, some 3 million poor renter families with children had housing costs that exceeded 30 percent of their cash income, the federal government's standard for affordability. About three-quarters of these families had severe housing affordability problems, meaning that rent and utility costs exceed half their income. Families that pay this much for rent are more likely than others to live in housing that is overcrowded or of poor quality, and studies associate overcrowding with a number of adverse consequences for children such as developmental delays and increased risk that children will fail to complete high school. Older housing of poor quality also increases the risks that children will be exposed to allergens (such as mold), lead paint, and other health hazards. In addition, these families are more likely to reside in high-poverty neighborhoods with inferior schools more limited services, and poor access to jobs.

Poor families that struggle to pay for housing often are forced to move frequently, and some experience homelessness. A HUD survey found that 341,000 children lived for at least part of a recent 12-month period in homeless shelters or transitional housing for homeless families. Many additional families double up with relatives or friends to avoid ending up on the streets or in a shelter. Residential instability and homelessness increase the anxiety and stress experienced by children in poor families and can disrupt their lives in ways that can have a lasting impact, such as by interrupting and delaying their progress in school. High housing costs also make it more difficult for families to pay for child care, transportation, and other expenses related to holding a job.

One factor here is that the way we help low-income families meet housing needs is quite different from the way in which we help such families meet other basic needs such as food. Most of the basic nutrition programs are *entitlement* programs under which aid is available to all eligible families that apply. Housing programs, in contrast, are *not* entitlement programs, and they receive far less funding than is needed to serve all eligible families. Only about 1 in 4 eligible low-income families receives *any* federal housing assistance.

And not only is public funding for housing assistance inadequate, but the resources devoted to advocacy for the improvement of housing assistance programs also are modest compared to those in other program areas, including areas where the programs already are more robust and meet a much larger share of the need. (Foundation interest in this area is slight relative both to the area's importance and to foundation interest in other policy areas of significance to low-income families.)

Where To Go From Here

Housing assistance is effective at lifting families with children out of poverty, freeing up resources to meet other basic needs, and improving housing stability. Some two out of three children in otherwise-poor families that receive federal housing assistance are lifted out of poverty by that assistance (using the NAS method for measuring poverty that takes non-cash assistance and work expenses into account). Research also shows that low-income families using housing vouchers move less frequently and have a 75 percent lower incidence of homelessness than similar families that receive no housing assistance.

There also is evidence that well-designed and administered housing assistance programs can support employment and provide access to neighborhoods with better schools and job opportunities and less crime. Studies suggest that when housing assistance is used by families to relocate to low-poverty communities, families experience substantial improvements in safety and security, physical and mental health (especially for women and girls), and, in some cases, positive educational outcomes. In addition, research on the Jobs Plus demonstration program and some state welfare reform initiatives suggests that when housing assistance is integrated effectively with well-designed work supports such as child care and financial incentives to work, it can help families increase employment and earnings.

An expansion of certain types of housing assistance, combined with targeted improvements to make the housing programs more effective, could pay significant dividends for poor families. We recommend the following broad approach:

Expand the Housing Choice Voucher program (sometimes referred to as the section 8 voucher program or the tenant-based voucher program) to cover a significantly larger share of the eligible households. Housing vouchers help families pay rent on private apartments and can provide families the flexibility to choose housing that best meets their needs. Vouchers also cost less and can be made available more quickly than other forms of housing assistance.

Reform the voucher program so poor families are better able to secure housing in neighborhoods with better schools and more job opportunities. Vouchers are portable; families are supposed to be able to use them to relocate. But families often face barriers to portability. Reforms are needed to better realize this promise and to encourage and better enable families with vouchers to relocate to low-poverty, high-opportunity neighborhoods. Some of these reforms are included in the Section 8 Voucher Reform Act of 2008 approved last year by the house of Representatives with broad bipartisan support, but even if the bill is enacted next year, federal action by itself will be insufficient. Choices made by state and local program administrators are key to realizing the mobility potential of the voucher program. Strengthening advocacy efforts at state and local levels on behalf of mobility-enhancing policies (including advocacy related to the geographic allocation of subsidies for the production of new housing), will be an important component of the work needed to achieve this goal.

Expand and improve services tied to housing assistance, in particular by better integrating employment-related incentives and services. Housing agencies could be given funding to replicate successful strategies identified in the Jobs Plus demonstration projects that provide employment services, work supports such as child care, and financial incentives that reduce the extent to which families' rents increase as their earnings rise. Housing agencies also could be given funding to expand a program for families receiving housing assistance that helps families set employment goals and find jobs and then converts the extra rent families pay as their earnings grow into savings accounts the families receive when they reach their agreed-upon goals. Due in significant part to funding limitations, this program (the Family Self Sufficiency Program) now serves only a tiny fraction of housing assistance recipients.

IV Addressing Elderly Poverty

There is a widespread misconception that the problem of elderly poverty has largely been solved. This view is not surprising, given the official poverty rate of 9.7 percent for seniors, which is well below the official child poverty rate of 18 percent. But these figures are somewhat misleading. The official poverty rate fails to take into account the high out-of-pocket medical costs that many seniors face, and it uses a *lower* poverty line for seniors than for non-elderly individuals, a disparity most experts believe should be eliminated.

The expert panel on poverty that the National Academy of Sciences convened in the 1990s recommended eliminating the lower poverty threshold for seniors, counting non-cash benefits such as food stamps and housing assistance as income, and subtracting taxes paid, out-of-pocket medical expenses, and work expenses such as child care and transportation from income. Census data and data from the Urban Institute indicate that if the NAS recommendations are followed, the elderly poverty rate rises — how much depends on various methodological choices made in implementing the NAS recommendation — and the gap between elderly poverty and child poverty narrows.

What accounts for the marked increase in elderly poverty when the NAS parameters are used? The biggest factor is the subtraction of out-of-pocket medical expenses from income. Under the *official* measure of poverty, large numbers of seniors are *near-poor*; 16 percent of seniors had incomes below 125 percent of the official poverty line in 2007, and 23 percent had incomes below 150 percent. When out-of-

Characteristics of Poor Seniors

About two-thirds of poor seniors are women. The poverty rate for elderly women is significantly higher than the rate for elderly men.

About one-third are members of racial or ethnic minority groups.

Poverty rates rise as seniors age.

About 35 percent of poor seniors did not complete high school. Only about 13 percent have a bachelor's degree.

In 2003, the median value of poor seniors' financial assets was $900. Among seniors with incomes between 100 and 200 percent of the poverty line, the median value of their financial assets was only $3,000. (These figures do not include home equity and use the official Census Bureau definitions of income and poverty.)

Many low-income seniors face high housing costs. In 2006, half a million poor elderly households who did not own their homes had housing costs exceeding half of their income. An additional 770,000 poor owners had housing costs that exceeded half of their income.

pocket medical expenses are subtracted from their incomes, many of these seniors drop below the poverty line.

To be sure, nearly all seniors are covered by Medicare. However, Medicare cost-sharing requirements are substantial. The Medicare Part B premium (Part B covers physicians' services and lab work) is now $1,156 per year (twice that much for a couple). The Medicare Part B deductible is $135, and once a Medicare beneficiary meets her deductible, she must generally pay 20 percent of the cost of outpatient medical services, such as doctor's visits. Medicare beneficiaries also must meet a separate $1,024 deductible for Part A services (such as hospital, nursing home, and home health care services), and there are some co-payments for Part A services as well. There is *no limit* on the total out-of-pocket costs a Medicare beneficiary can face.

As a result, many seniors who have modest incomes face high out-of-pocket medical costs. Some low-income seniors are eligible for government programs that pay some or all of their Medicare premiums, deductibles, and co-payments. But only a modest small share of the elderly Medicare beneficiaries who qualify for this assistance actually receives it, and many low-income seniors who have high medical bills do not qualify.

Moreover, out-of-pocket health care costs for seniors are rising faster than Social Security benefits. Medicare premiums and co-payments rise with health care inflation, while Social Security benefits — and benefits under the Supplemental Security Income (SSI) program, which provides cash assistance to poor seniors — rise with the overall inflation rate. For years, health care costs have increased substantially faster than general inflation, and this is expected to continue. This means that out-of-pocket health care costs will become an increasingly large and onerous burden for many low-income seniors in the years ahead, unless more of these individuals receive help paying the premiums, deductibles, and co-payments.

Where To Go From Here

Social Security and SSI

Social Security benefits are the major source of income for low-income seniors. For one-third of elderly Social Security beneficiaries, Social Security benefits constitute 90 percent or more of their income. As policymakers consider how to close Social Security's funding shortfall, there will be a need for policy analysis and advocacy to ensure that policymakers adopt an approach that protects low-income seniors.

Indeed, efforts should be made to reform Social Security in ways that *reduce* poverty among low-income seniors. Options such as creating a minimum benefit guarantee for long-service, low-paid workers, improving benefits for widowed spouses, and increasing benefits for those who reach a very advanced age could significantly reduce elderly poverty. Efforts should be made to design Social Security reform to secure the savings needed to finance such options while also restoring Social Security solvency.

Policy changes in the Supplemental Security Income program also could reduce hardship among the poorest seniors. Two million poor seniors receive SSI benefits. To qualify, applicants must have assets of less than $2,000 for an individual and $3,000 for a couple. The maximum SSI benefit is $637 a month for an individual with no other income, which equals just 75 percent of the poverty line. SSI benefits are reduced *dollar-for-dollar* for Social Security benefits or pension income in excess of $20 per month.

Review and reform of SSI is overdue. Key aspects of the program have not been adjusted for inflation for decades. For example, the $20 limit on the amount of Social Security or other income someone can have before her SSI benefits are reduced dollar-for-dollar has not been adjusted for inflation since SSI started in 1974. SSI recipients who receive modest Social Security benefits, as most elderly SSI beneficiaries do, consequently receive *lower* total inflation-adjusted benefits today — and fall deeper into poverty — than in 1974. Similarly, the penurious SSI asset limits have not been adjusted since 1989.

SSI needs to be made a stronger safety net against poverty in old age, and the asset limit and income exclusions need to be adjusted to reflect the realities of inflation. Unfortunately, these issues are missing from the radar screens of most policymakers, and most foundations.

Reducing Out-of-Pocket Health Care Costs for Low-Income Seniors

A component of *Medicaid* known as the Medicare Savings Programs (or MSPs) provides help to poor and near-poor *Medicare* beneficiaries in paying their out-of-pocket health care costs. For seniors with cash incomes below the poverty line, the MSPs pay for all Medicare premiums, deductibles, and co-payments. For those with incomes between 100 and 135 percent of the poverty line, the MSPs pay the Medicare premiums, but not the deductibles and copayments.

Many individuals eligible for the Medicare Savings Programs do not participate in them, however. Prior to the establishment of the Medicare drug benefit, only 33 percent of poor seniors not enrolled in regular Medicaid were enrolled in the MSPs, and an even smaller share (13 percent) of those between 100 and 135 percent of the poverty line participated. The main reasons are lack of knowledge about the programs and complexity in applying for them.

Legislation enacted earlier this year made modest improvements in this area, raising the asset eligibility limits for the MSPs and requiring the Social Security Administration to help seniors apply for the MSPs. But more needs to be done. The House passed legislation in 2007 to increase the income eligibility levels for the MSPs to 150 percent of the poverty line, increase the asset limits for the MSPs more substantially, and simplify the application and renewal procedures for these programs. Such changes would be beneficial. In addition, states and community institutions need to do more to encourage and assist seniors to apply for these programs. A review should be undertaken of current outreach efforts, and consideration given to how to bolster those efforts and enhance their effectiveness.

Housing Assistance and Low-Income Seniors

More than one million low-income elderly households live in public housing or in private apartments subsidized through what is known as the Project-Based Section 8 program. These programs provide an important stock of affordable housing to poor seniors (and to many individuals with disabilities and low-income families with children). The availability of this housing has diminished over the past decade, however, as hundreds of thousands of affordable units have been lost due both to action by many private owners to convert buildings that formerly provided apartments to low-income people at subsidized rents into market-rate housing and to chronic underfunding of needed capital repairs and maintenance in public housing, much of which is aging considerably.

To avoid further losses in the stock of affordable housing for some of the nation's most vulnerable populations, additional resources and new preservation strategies will be needed. With regard to public housing, resources are needed both to restore otherwise viable public housing developments and to institute creative policy innovations that could open up new sources of financing for the rehabilitation and operation of public housing. With respect to affordable housing funded under the project-based Section 8 program, new incentives for owners and program reforms, as well as new resources, are needed to encourage owners to remain in the program, ensure that their properties can be adequately maintained, and facilitate the transfer of properties to new ownership, if necessary, to preserve their affordability for low-income seniors and other poor households. For these programs to serve a frail and aging population effectively, funding also will be needed to provide a range of housing-based services, which can lessen the need for long-term care. Finally, an expansion of Housing Choice vouchers (cited above) would also benefit seniors in need of affordable housing

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