Treatment of In-kind Benefits

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Working Papers provide a succinct discussion of specific issues that arise throughout the analytical process of poverty measurement. The Metcalf Foundation has funded the overall project.

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Treatment of In-kind Benefits

1 Objectives

The purpose this is paper is to highlight some issues on how in-kind benefits can influence the determination of poverty.

Poverty measures compare a family's access to resources (see Working Paper on Resources) to the requirements for an acceptable standard of living. For the usual poverty measures, resources are assessed using money income, before or after income taxes. By using income poverty measures are ignored the impact of 'in-kind benefits' on the poverty status of a family.

2 In-Kind Benefits

As the standard poverty measures only examine monetary income, non-monetary, or in-kind benefits enjoyed by an individual and family do not affect these measures. As such, they form a "grey area" and may mask or misrepresent the true resources or needs of a family.

In-kind benefits include government subsidies for goods and services; for example, subsidized housing and child care. They also include goods provided by food banks and other charities, such as food, hot meals, transportation and clothing. These benefits tend to be used by lower-income families.

In-kind benefits also include employer provided subsidized health insurance for prescription drugs, dental care and optical goods and services. These benefits are more often available for those with higher-paying jobs.

The case of subsidies for prescription drugs is interesting because it includes two groups of plans; those provided by employers disproportionately going to higher income Canadians, and those operated by provinces which are either universal, cover those not covered by employer plans, or are targeted to lower-income families. There are a range then of subsidies which vary in characteristics.

To account for in-kind benefits in the poverty measures, one would need to place a monetary value on the subsidies received by a family and either include them when calculating a family's resources, or reduce the 'need' by that value.

Ignoring some of the in-kind benefits can be expected to affect the poverty rate, as well as the composition of 'the poor' and the average depth of poverty. The necessary considerations include benefits enjoyed by individuals across the income span which have substantial value. In particular, one might think of subsidies for child-care, housing and health expenses as measures which could usefully be included in improved poverty measures.

In-kind benefits like food banks and shelters for the homeless are not likely to influence any poverty rate since those using these services are generally so destitute that they would be poor with or without these subsidies. Also, it should be said that valuing these benefits would be difficult since the quality of the benefit is so low that they would be unacceptable to middle-

income families. Here, "quality" includes matters of choice and nutritional value for food, and issues of safety, privacy and autonomy for shelters, which make these choices unacceptable to those with any economic choice.

It should be mentioned that there are a range of in-kind benefits provided by government which would generally be ignored in poverty measures because they are available to the majority of the population and therefore do not affect measures of inequality. These would include medicare benefits and public education.

Public transit provides local transportation at a reasonable cost in major cities. The market basket measures of poverty reduce the income needs of families that live in cities with rapid transit to reflect the value of this service.

3 Measuring In-kind Benefits

How do the poverty measures account for access to food banks, access to additional medical services, and access to social housing?[1] These items are all resources available to a family and there reduce their needs. The recognition of in-kind benefits could reduce the poverty rates somewhat and would have a marked impact on the depth of poverty.

3.1 Medical Benefits

The provision of public prescription drug coverage is complex; individuals may benefit from private insurance, public insurance or both. Private insurance may be provided by an employer, or may be purchased by the individual. For public insurance, the coverage provided can vary by income level and by province. For prescription drugs, some provinces provide universal coverage through public plans (i.e., B.C., Saskatchewan, and Manitoba). In Quebec, public coverage is mandated where an individual does not have employer health insurance for drugs. In Ontario and Alberta, coverage is available to those not covered by employer plans. In the Maritimes, public coverage is not universal.

Even where everyone has some coverage for health benefits, the value of benefits varies markedly, in terms of cost (e.g., deductibles and co-pays) and breadth (i.e., the formulary or list of drugs covered). Of note, these concerns are not unique to Canada; American researchers have also addressed these issues.

There has been some spirited debate in the United States about whether poverty thresholds already include provisions for out-of-pocket medical expenses and whether some adjustment in poverty thresholds is advisable for such medical expenses and/or health insurance.[2]

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[1] For a discussion of housing subsidies and poverty measures, see Working Paper 8 – Shelter and Poverty Measurement.

[2] For more on this discussion, refer to: Bavier, R. (1996): "Medical Needs and the Poverty Thresholds," Working Paper, *U.S. Census Bureau.* 1998; Institute for Research on Poverty (1998): University of Wisconsin-Madison, "Revising the Poverty Measure," *Focus,* 19(2). Spring 1998.; Kalinosky E. and Kohler B**.** (2009): *Treatment of*

The 1995 panel on poverty measurement commented on this issue.

The treatment of medical costs can complicate the determination of poverty. Some measures make no special provision for medical costs. The only poverty measure in Canada which attempts to include some explicit provision for medical expenses is HRSDC's Market Basket Measure. In that measure, employee contributions to health insurance plans are deducted from income, as are estimates of the expenses eligible for the Medical Expense Tax Credit for income tax purposes. This approach represents a crude attempt to address the issue of health care expenses.

> "Thus the Panel recommends separating the measurement of economic poverty from the measurement of medical care needs and the adequacy of resources to meet those needs. Specifically, the Panel makes the following recommendations:

3.2 Food Stamps

In the U.S. context, the treatment of food stamps is important and has received some consideration. Food stamps are available to all those in economic need: the amount of assistance provided varies based on a family's income and needs. These benefits are accessible in addition to other in-kind benefits, allowing households to access multiple benefits (e.g., social assistance and subsidized housing). While studies reveal that some individuals were accessing multiple benefits, and as a result could earn 130% or more of the poverty line, over 75% of food stamp recipients remained poor despite accessing multiple benefits, although the depth of their poverty was reduced by two-thirds on average.[3]

Food stamps represent a significant source of poverty alleviation for some low income individuals, but are not included in the official poverty measure. Since the late 1980s, the US Census Bureau has reported the effects of these measures, and of direct taxation, on low income individuals. Food stamps are generally accessed by the lowest income individuals and families and are more likely to be effective at reducing the depth of poverty than in alleviating poverty altogether.[4]

Iceland and Kim note that food stamps and other forms of social assistance understate the depth of poverty faced by the working poor. As these individuals incur more costs (e.g., child care) in relation to food stamps and other benefits that they may receive, in-kind benefits are seen as

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Medical Care Expenditures in Poverty Measurement: The National Academy of Science Panel Proposal, Institute for Research on Poverty, 2009. <http://www.irp.wisc.edu/research/method/kalinkohl.htm> Accessed 9 January 2009.

[3] MacDonald, M. (1985): "The Role of Multiple Benefits in Maintaining the Social Safety Net: The Case of Food Stamps", *The Journal of Human Resources*, 20(3): 421-436, p. 431.

[4] Bishop, J. A., Formby, J. P., & Zeager, L. A. (1996). The impact of food stamps on US poverty in the 1980s: A marginal dominance analysis. *ECONOMICA, 63*(250), S141-S162, p. S159-S160.

providing greater relative advantages to the non-working poor, and may therefore understate the depth and extent of poverty among the working poor.[5]

3.3 Adjusting the Measures

A researcher does need to deal with how much adjustment one makes for family needs in setting a poverty threshold. Adjustments are usually made for family size through an equivalence scale.[6] Regional differences are accounted for in the LICO using an urban/rural adjustment. The MBM and Basic Needs Measures develop thresholds for particular communities. The LIM, on the other hand, makes no adjustment for region.

As statistical measures developed for research purposes, one should not expect that poverty designations will assign families to poor and non-poor designations correctly. There are too many variables which could influence a family's standard of living which could never be captured in a practical statistical measure. For example, the presence of a disability or chronic illness could have a profound impact on a family's non-discretionary costs and standard of living. Home equity and other assets are generally ignored in assessing a family's resources yet may often affect a family's standard of living.

There is a trade-off in designing poverty measures between simplicity and transparency: they cannot adjust for each factor which impacts on the standard of living, and as a result, some families will be misclassified. Simplicity, however yields measures that are less complex which makes poverty measurement and discussions understandable for more individuals instead of being confined to a small group of experts.

When reliable data can be routinely obtained which could reasonably be included in resource measurements or as adjustments to the poverty threshold that determines adequacy, these data should be considered for inclusion in the poverty measures. Simplicity and transparency are still, however, valuable attributes for a poverty measure that will be used by the media and policy researchers.

4 Accessibility of services

In-kind benefits programs have varying means of determining who is eligible for services. There are no standardized means tests for in-kind benefits. Indeed, as many benefits are offered by charities and nonprofit groups, these organizations can restrict the availability of their services based on income or other attributes (e.g., religious affiliation, new immigrant status, etc.).

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[5] Iceland, J., & Kim, J. (2001): Poverty among working families: New insights from an improved poverty measure. *Social Science Quarterly, 82*(2), 253-267, p. 258-260.

[6] For a full discussion and more information, refer to Working Paper 5 – Measurement of Poverty within Family Groups.

4.1 What is the criterion for accessing a state-run social program?

Generally, in-kind benefit programs require users to undergo a means test – where they prove their lack of income – for access. For example, one has to prove both local residency and financial need to receive food from most food banks.

Program accessibility is also hampered by a scarcity of services. Subsidized housing, for example, requires an income test. Those who have low incomes and qualify for the service do not, however, automatically receive housing. In this case, the limited subsidized housing spaces available in each region in Ontario result in long wait lists for housing. In large urban centres such as Toronto and Ottawa, the wait for housing can exceed be up to 12 years, depending on the composition and needs of the family requiring assistance.[7]

4.2 Can these criteria be used for the identification of those living in poverty?

While examining the beneficiaries of in-kind benefit programs will identify many individuals who live in poverty, these measures are not adequate for measuring poverty as they will not identify all those who are in need. Many individuals do not access these benefits, even if they are entitled to do so.

As discussed above, their access may be blocked by long waiting lists. In addition, people may not access services if they do not know that they are entitled to do so, a problem which may be especially prevalent among new immigrants or individuals who are not familiar with the services available. Also, individuals may not access services for personal reasons. As discussed, many of the in-kind services available would be considered unacceptable to individuals with adequate incomes. As such, individuals may not access or apply for benefits to which they are entitled. For example, not all individuals who are homeless will access shelters. Many may instead decide to "couch surf": staying with friends, family or other individuals. In the same vein, many people may avoid accessing food banks due to the lack of nutritional choices and selection.

5 Measurements that include in-kind benefits

As stated above, most poverty measures ignore in-kind benefits. This is likely due to the variations in available programs, the nature of the benefits provided, differences in accessibility rules, as well as the difficulty of obtaining information on who uses the programs, for how long, and what benefits they receive. The MBM, however, does consider some in-kind benefits.

The MBM is influenced by the presence of certain in-kind benefits. It measures income using 'take-home pay': that is, income after mandatory deductions which will often include employee contributions for health benefits. As well, out-of-pocket costs incurred for health benefits and child care are subtracted from the income used for the MBM.

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[7] Ottawa (2008): *City of Ottawa – Social Housing in Ottawa*, City of Ottawa <http://www.ottawa.ca/residents/housing/social_housing/index_en.html> Accessed 19 Feb 2009.
Toronto (Staff Report) (2007): Tied in Knots: Unlocking the Potential of Social Housing Communities in Toronto, Toronto: City of Toronto, p. 22. <http://www.toronto.ca/legdocs/mmis/2007/cd/bgrd/backgroundfile-8980.pdf > Accessed 19 Feb 2009.

Presumably, families with subsidies for child care will report less out-of-pocket expenditures and will have a higher 'MBM income', and lower poverty rate, than comparable families paying market rates for child care.

For health care costs, the MBM imputes values based on the Medical Expense Tax Credit. This tax measure allows some tax credit for medical expenses that exceed 3% of one's net income. Many people will not report their medical expenses because their income is high enough that they will not benefit from the credit. As such, the MBM is likely overstating the poverty rate for those with health insurance as compared to those without by reducing income figures by the employee share of the cost of health insurance and the cost of health care captured in the Medical Expense Tax Credit.

6 Available data on in-kind benefits

It is likely that any attempt to include in poverty measurement some accounting for in-kind benefits will be challenging because of comprehensive and consistent data will be hard to come by.

The availability of data vary by the type of in-kind benefit.

- The number of users of food banks can be estimated in aggregate but statistical information on the users will be difficult to measure. This measure is further complicated as food banks exist and operate as local charities, although they are allied by a central association. As food banks usually require proof of one's poverty, however, it follows that virtually all users of these programs will be low-income.

- As shelters are generally considered to be accommodations of last resort, users of these services usually face extreme poverty. There is no income eligibility for staying in a shelter, however, many shelters do collect a portion of an individual or family's income as a contribution toward their stay.[8] Human Resources and Social Development Canada does collect information on the individuals staying in shelters, including the amount and sources of their income (if any), personal attributes (e.g., age, sex, social insurance number, etc.), the reasons for their stay, and the duration of their shelter use through an integrated information system. This information, however, is not easily accessible and would need to be linked with other databases in order to provide detailed and meaningful analyses of the data. In addition, the data set would be incomplete, as use of the information system is voluntary and not all shelters submit information to HRSDC.[9]

[8] Individuals staying in a shelter are expected to give one-third of their income to the shelter as a contribution toward their stay; for social assistance recipients, the 'shelter' portion of their cheque is deducted and given to the shelter.

[9] As of March 2006, the HRSDC software was used in 39 of 61 target jurisdictions where homeless has been identified as a problem. This represents 33.9% of the shelter bed capacity in these centres (HHB, 2006, p. 7).

- Data on health insurance and out-of-pocket expenditures for health care exist on various databases but are not usually available on an integrated survey.

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