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Federal Poverty Guideline Underestimates Costs of Living for Older Persons in California

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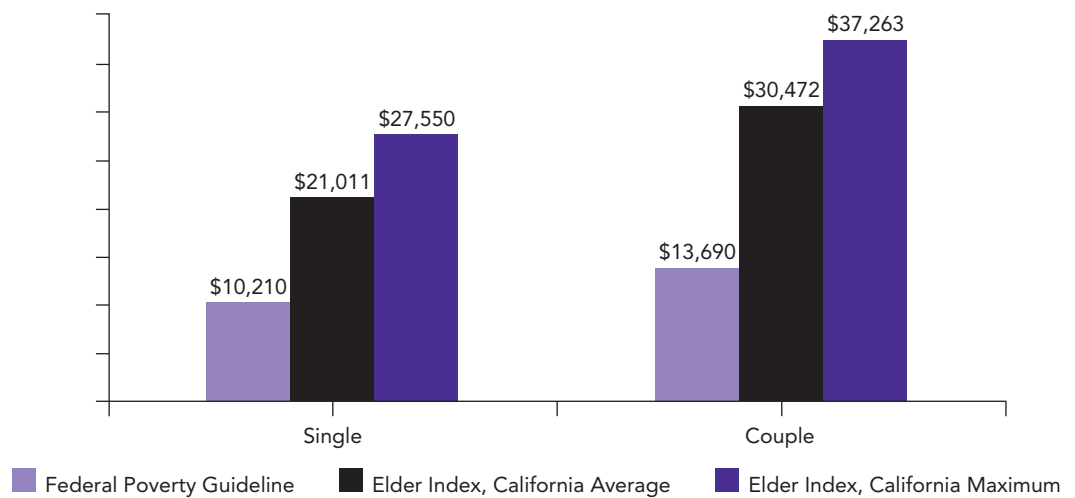
The new Elder Economic Security Standard™ Index (Elder Index) for California documents that the federal poverty guideline covers less than half of the basic costs experienced by adults age 65 and older in the state. The federal poverty guideline is often used to determine income eligibility for public programs and in allocating resources to communities. The federal poverty guideline for a single person in 2007 was an annual income of \$10,210, and for an older couple it was \$13,690 (Exhibit 1). According to the Elder Index calculations at the county level, however, a basic annual cost of living for a retired older adult with good health in rental housing in California averages \$21,011, and reaches \$27,550 in San Mateo County (Exhibit 1). For an older couple the average is \$30,472 and reaches \$37,263 in San Mateo County.

The official federal measure of poverty is based on an outdated approach. It was initially designed in the early 1960s by Mollie Orshansky, an economist at the Social Security

Administration. Orshansky's approach drew on consumption surveys of the 1950s that found families spent about one-third of their income on food. This ratio was paired with the U.S.

Exhibit 1

California Elder Economic Security Standard Index, Renter Age 65 and Over in Good Health vs. Federal Poverty Guideline, 2007



Source: U.S. DHHS' and UCLA Center for Health Policy Research calculations



This policy brief was developed in collaboration with the Insight Center for Community Economic Development.

Exhibit 2

California Elder Economic Security Standard Index, Single Renter in Good Health, 2007

County	Elder Index per Year	County	Elder Index per Year
Alameda	\$ 25,153	Nevada	\$ 20,842
Alpine	\$ 19,840	Orange	\$ 25,466
Amador	\$ 20,716	Placer	\$ 21,727
Butte	\$ 19,512	Plumas	\$ 19,162
Calaveras	\$ 19,696	Riverside	\$ 20,703
Colusa	\$ 18,726	Sacramento	\$ 21,517
Contra Costa	\$ 25,353	San Benito	\$ 22,678
Del Norte	\$ 18,627	San Bernardino	\$ 20,591
El Dorado	\$ 21,151	San Diego	\$ 22,822
Fresno	\$ 18,870	San Francisco	\$ 27,435
Glenn	\$ 17,934	San Joaquin	\$ 19,913
Humboldt	\$ 19,176	San Luis Obispo	\$ 22,380
Imperial	\$ 19,891	San Mateo	\$ 27,550
Inyo	\$ 18,748	Santa Barbara	\$ 24,566
Kern	\$ 17,789	Santa Clara	\$ 25,391
Kings	\$ 19,112	Santa Cruz	\$ 25,492
Lake	\$ 19,442	Shasta	\$ 19,298
Lassen	\$ 18,843	Sierra	\$ 20,314
Los Angeles		Siskiyou	\$ 18,255
City of LA	\$ 22,798	Solano	\$ 21,857
Rest of LA County	\$ 22,827	Sonoma	\$ 22,635
Madera	\$ 17,964	Stanislaus	\$ 18,971
Marin	\$ 26,581	Sutter	\$ 18,560
Mariposa	\$ 19,840	Tehama	\$ 18,234
Mendocino	\$ 20,220	Trinity	\$ 18,234
Merced	\$ 18,952	Tulare	\$ 17,814
Modoc	\$ 18,423	Tuolumne	\$ 20,044
Mono	\$ 21,652	Ventura	\$ 23,910
Monterey	\$ 24,178	Yolo	\$ 20,608
Napa	\$ 22,086	Yuba	\$ 18,560

Source: UCLA Center for Health Policy Research calculations. Details at http://www.healthpolicy.ucla.edu/elder_index08feb.html

Department of Agriculture's economy food plan, which was designed for the lowest possible food spending, to create a poverty-level value. The value is increased by the general Consumer Price Index, which does not accurately reflect the spending patterns of older adults. Many programs base eligibility on a simplified version of this measure called the Federal Poverty Guideline or the Federal Poverty Level (FPL). It retains the obsolete assumption that food accounts for one-third of a family's budget and is often misused as a measure of income adequacy.¹ The newly developed Elder Index for California takes into account actual costs for housing, food, transportation, out-of-pocket medical expenses and other necessary spending.

The FPL is also inaccurate because it is the same amount for all states, and fails to account for the higher costs of living in California. The Elder Index provides a calculation of a basic cost of living for retired adults age 65 and older for every county, and separately for Los Angeles City and County. The Elder Index for single older adults by county (Exhibit 2) demonstrates that within California there is significant variation in the basic cost of living for older adults. The Elder Index for a retired person age 65 or older who rents is over \$25,000 per year in eight urban coastal counties, while it is in the \$17,500-\$18,500 range in eight rural inland counties. The pattern is similar for retired older couples.

California Elder Economic Security Standard Index Components, Los Angeles County (Excluding LA City) and Humboldt County, 2007

Exhibit 3

Los Angeles County		Elder Person			Elder Couple		
Monthly Expenses and Totals	Owner without Mortgage	Owner with Mortgage	Renter 1 Bedroom	Owner without Mortgage	Owner with Mortgage	Renter 1 Bedroom	
	Housing	\$477	\$1,663	\$1,016	\$477	\$1,663	\$1,016
Food	263	263	263	486	486	486	
Transportation	202	202	202	323	323	323	
Health Care (Good Health)	194	194	194	388	388	388	
Miscellaneous @ 20%	227	227	227	335	335	335	
Total Monthly Elder Index	\$1,363	\$2,549	\$1,902	\$2,008	\$3,194	\$2,547	
Total Annual Elder Index	\$16,355	\$30,591	\$22,827	\$24,095	\$38,331	\$30,567	

Humboldt County		Elder Person			Elder Couple		
Monthly Expenses and Totals	Owner without Mortgage	Owner with Mortgage	Renter 1 Bedroom	Owner without Mortgage	Owner with Mortgage	Renter 1 Bedroom	
	Housing	\$368	\$1,116	\$551	\$368	\$1,116	\$551
Food	231	231	231	427	427	427	
Transportation	202	202	202	323	323	323	
Health Care (Good Health)	378	378	378	756	756	756	
Miscellaneous @ 20%	236	236	236	375	375	375	
Total Monthly Elder Index	\$1,415	\$2,163	\$1,598	\$2,249	\$2,996	\$2,431	
Total Annual Elder Index	\$16,985	\$25,955	\$19,176	\$26,986	\$35,956	\$29,177	

Source: UCLA Center for Health Policy Research calculations. Details at http://www.healthpolicy.ucla.edu/elder_index08feb.html

California's Supplemental Security Income payment maximum of \$10,272 annually (to low-income elders) does not come close to the Elder Index level in any county. Similarly, the average Social Security payment in California counties of \$12,000-\$13,000 for individuals is also well below the Elder Index.

In addition to county variation, the Elder Index distinguishes between older adults who own versus rent, who have a paid-off mortgage or not, and for those with different levels of health care needs.

Elder Budgets Driven by Housing, Health Care and Food Costs

Housing costs can dominate the budgets of older adults (Exhibit 3). Los Angeles, which is among the more expensive urban California counties, has rental costs that are nearly twice as high as Humboldt County, which is among the lower-cost counties. Housing is the greatest expense for most older adults in expensive urban counties, and for many in rural counties even though housing is less expensive.

Health care costs can exceed housing costs for couples who own their own homes and have paid off their mortgages. Health care is also more expensive than housing costs for an elder person living alone with a paid-off mortgage (and renting couples) in rural counties with lower housing costs and higher health care costs like Humboldt County (Exhibit 3).

Out-of-pocket health care costs include Medicare Part B and Medicare supplemental insurance premiums (Medicare Advantage HMOs with prescriptions where commonly available, otherwise Medi-gap and Part D prescription plans). Older adults also spend a median of \$100 per month on additional health care expenses, which do not include the high costs of long-term care that are faced by some seniors.

Food is a major expense that exceeds both housing and medical costs for couples with a paid-off mortgage in Los Angeles and other counties with moderately-priced Medicare Advantage options. Food costs in the Elder Index are based on the U.S. Department of

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Agriculture's very modest "low-cost food plan," and do not include meals outside the home. They are adjusted to account for county cost variations.

Transportation costs are based on the median miles driven by older adults, which results in a modest budget for local travel only. Miscellaneous costs are calculated at 20% of the other four categories to cover clothing, telephone, home repairs and furnishings, and other spending not accounted for elsewhere.

Policy Implications of the California Elder Index

The Elder Index demonstrates that elders require an income of at least 200% of the FPL to age in place with dignity and autonomy without relying on public programs. Programs that do not use the county-specific Elder Index should at least use a minimum of 200% of the FPL to determine income eligibility.

The eligibility level for some elder benefit programs is above the FPL, but still far short of the Elder Index. For example, Medicare offers "special help" or subsidies to purchase Part D prescription medication insurance for older adults with incomes below 150% of the FPL. Programs with eligibility levels closer to the Elder Index do not cover older adults, as do the 200% FPL eligibility level for Medi-Cal during the first year of life and the 250% FPL level for Healthy Families' health insurance for children.

Knowing the true cost of living for older adults is vital if we are to ensure that elder Californians can meet basic needs and maintain independence. Complete data about the California Elder Index is available at http://www.healthpolicy.ucla.edu/elder_index08feb.html. Information on how this data can be used by advocates to improve programs and policies for California's older adults is at <http://www.insightcced.org/index.php?page=california-elder-economic-security-initiative>.

The California Elder Economic Security Initiative™ program is led by the Insight Center for Community Economic Development, Oakland, California (510-251-2600, ext. 108), and a statewide steering committee. The national initiative is led by Wider Opportunities for Women (WOW), Washington, DC, which holds all trademarks, www.wowonline.org. The national methodology was developed by the Gerontology Institute at UMass-Boston and WOW. The California Elder Index was calculated by the UCLA Center for Health Policy Research. California funding has been provided by: California Community Foundation, The California Endowment, California Policy Research Center, The California Wellness Foundation, Council on Aging-Silicon Valley, The Health Trust, LA City Department of Aging, LA County AAA, UC-Program on Access to Care, United Way of the Bay Area, WOW, and Y&H Soda Foundation.

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Note

1 For the U.S. Department of Health and Human Service's federal poverty level (FPL) guideline, see <http://aspe.hhs.gov/poverty/07poverty.shtml>. See also "Development of the Orshansky Poverty Thresholds and Their Subsequent History as the Official U.S. Poverty Measure" at <http://www.census.gov/hhes/www/povmeas/papers/orshansky.html>.



Wider Opportunities for Women

The National Elder Economic Security Initiative™ program is led by Wider Opportunities for Women (WOW), Washington, DC.