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**POVERTY IN THE US AND THE UK:
RELATIVE MEASUREMENT AND RELATIVE ACHIEVEMENT**

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Abstract

By the government's official measure, 18 percent of children in the United States were living in poor families in 2007. In the United Kingdom, where the Labour party has set a 2010 goal to reduce child poverty by 2010 to half the level observed in 1998/99 (and a 2020 goal to eliminate it), the official measure for 2006/2007 was 22 percent. While it may appear at first that US children are in a better position, this is misleading because of differences in procedures for measuring poverty in the two countries. Poverty in the UK is assessed by comparing a broadly defined measure of household income to a threshold amount equal to the 30th percentile of the overall income distribution. When a similar approach is used for US data, the estimated child poverty rate rises to 29 percent. It is likely that the new US administration will alter current procedures for poverty assessment in the US, and UK methods would be usefully studied. At the same time, the UK would benefit from study of American survey procedures and reform proposals.

Poverty in the US and the UK: Relative Measurement and Relative Achievement

Rebecca Shwalb and Michael Wiseman*

By the government's official measure, 18 percent of children in the United States were living in poor families in 2007. In the United Kingdom, where the Labour party has set a 2010 goal to reduce child poverty by 2010 to half the level observed in 1998/99 (and a 2020 goal to eliminate it), the official measure for 2006/2007 was 22 percent. While it may appear at first that US children are in a better position, a quite different picture emerges when we examine the radically different ways these two countries measure poverty. This note looks at US poverty from a UK perspective and in doing so points to flaws in the way we understand and measure poverty in the US.

Counting the Poor, UK Style

We begin by detailing how poverty is assessed in the UK. Here is the "headline" version: People are counted as poor if they live in a household in circumstances such that household weekly income net of taxes but not housing costs "equivalised" by the modified OECD scale falls short of 60 percent of contemporary median spendable income as calculated from data reported in the Family Resources Survey (FRS) conducted by the Department of Work and Pensions (DWP). (Some headline!) In 2006/2007 for a family of four with two children age five and 14 this poverty threshold was £346 per week, or roughly £18,000 per year (DWP 2008c, 26). The fact that poverty is defined on the basis of where one stands compared to the median income among all UK residents makes this a "relative" measure.

There is a second version based not on contemporary median spendable income but on 60 percent of median income in 1998/99 adjusted for inflation. In 2006/2007 for the family of four just introduced, the threshold for poverty designation on this baseline standard was £298 per week, or roughly £15,500 per year (DWP 2008c, 26). Relating poverty to where one stands compared to a fixed (in purchasing power) standard makes this baseline an "absolute" measure. 1998/1999 is a baseline for measuring progress against the government's goal of halving child poverty (i.e. the proportion of children living in families deemed poor by the contemporary standard) by 2009/2010 (DWP 2003). This baseline or absolute measure thus does not shift as general living standards change over time.

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In official statistics the contemporary and baseline measures are presented both before and after (i.e. net of) housing costs. The BHC and AHC numbers are complemented by data on the prevalence of various measures of children's "deprivation of items and services." Our purpose is served by concentrating on the BHC income measures, the numbers most widely cited in UK public discussion. There are no readily available comparable American statistics on material deprivation. Table 1 reports the prevalence of poverty in the UK for three fiscal years, measured BHC: 1998/99 (the baseline), 2004/2005, and 2006/2007 (the most recent data available). We report 2004/2005 because it is in this year that the decline in UK poverty appears to have halted.

Looking first at the assessment based on contemporary standards, we see cause for current policymaker angst. After a modest overall decline in the poverty rate over the first six years of the eight-year span we cover, poverty evaluated on the basis of contemporary incomes has increased, even among children, the target of former Prime Minister Tony Blair's goal-setting (Walker 1999). From a baseline perspective, the story is somewhat different. Viewed using the baseline standard, the aggregate poverty rate fell by eight percentage points over the six years following 1998/1999, and the poverty rate for children was halved. Nevertheless, since 2004 even on the absolute standard the prevalence of poverty overall has increased, and no progress has been made against child poverty.

[Table UKPOVACHIEVE](#)

Table 1: The UK Poverty Achievement, 1998-2007

Counting the Poor, US Style

The US poverty measure is a relic of the early 1960s. It was constructed by the Social Security Administration to add a bit of refinement to a very rough poverty count released in 1964 in conjunction with President Johnson's announcement of the "War on Poverty." The SSA standard was based on food budgets specified by the U.S. Department of Agriculture for "temporary or emergency use when funds are low" and a survey estimate that households in the 1950s spent on average about one-third of income on food (Fisher 1992). Et voila! A family was poor if its income was less than three times the relevant food budget. "Income" meant income as defined in the Current Population Survey (CPS, the only national data source for annual family income available at the time): The income data are gross (not net of taxes) and include cash transfers. Put in technical terms, this is "pre-tax, post-transfer" income. "Relevant" here means the budget appropriate to the family's composition. Budgets varied by total family size and number of children. Additional adjustments were made for single and older persons.

The results of the first application of the standard were published in 1965 (Orshansky 1965). With only minor changes, this standard has been used ever since, with values adjusted only for changes in prices. Like the UK 1998/99 baseline, America's is an "absolute" poverty standard, but it is far more antiquated. In 2006 the poverty threshold for a family of four (two adults, two children) was \$20,444 (DeNavas-Walt et al. 2007). The overall prevalence of official poverty in the US is low (13 percent in 2007). As Figure 1 illustrates, it is virtually unchanged over the past decade.

[Figure USPOV9807](#)

Figure 1: US Poverty Rates (Official Standard), 1997-2007

Cross-national comparisons of living standards are difficult. While tempting, translating \$20,444 into pounds can't be responsibly done with exchange rates because exchange rates are influenced by many factors not directly associated with the cost of living. Possibly the best fallback is the Organization for Economic Cooperation and Development's (OECD's) "Purchasing Power Parity" (PPP) measure, which is intended to measure the ratio of the prices in national currencies of the same goods or services in different countries (Schreyer and Koechlin 2002). Using the OECD's 2006 PPP of 1.534 \$/£, the UK poverty threshold amounts to roughly \$27,600 for the contemporary measure and \$23,800 for the baseline measure. Both are well above the \$20,444 threshold used in the US.

The shortcomings of the American standard are legion. Its empirical basis was lost long ago. While the fixed poverty standard has stayed constant in real terms since 1963, median family income has increased by 66 percent.¹ Surely any meaningful poverty standard should reflect this changing social context. Moreover, while the income measure used may have been appropriate for the early 1960s, it simply excludes major sources of poverty-targeted benefits today, either because they come through the tax system (and hence are not "pre-tax") or are earmarked for food, shelter, or other merit goods (and hence are not strictly cash income). The most important examples of these excluded resources are the benefits of the Food Stamp program (delivered through ATM-like bank cards usable only in food stores),² the Earned Income Tax Credit (the inspiration for the UK Working Tax Credit), housing subsidies, and Medicaid, the national health insurance system for low-income individuals and families. The amounts involved are hardly trivial. In (federal) fiscal year 2006 (i.e. from October 2005 through September 2006) total Food Stamp benefits amounted to \$30 billion, EITC payments \$39 billion, housing subsidies \$33 billion, and Medicaid a whopping \$304 billion. In contrast, total federal and state payments under the major cash transfer program for families with children, Temporary Assistance for Needy Families, amounted to just \$26 billion, \$9 billion in cash and \$17 billion in other non-cash assistance.³

We are hardly the first to point out these issues, and our list of faults is far from exhaustive. So far the poverty standard survives principally because virtually any alteration would raise the poverty count. This is not to say attempts have not been made. In 1995 the National Academy of Science issued a report calling for transition to a new poverty standard that was an ingenious combination of consumption and relative income standards (Citro and Michael 1995). While the recommendations have yet to be adopted, the agency responsible for poverty assessment, the Bureau of the Census, has published "experimental" measures of poverty based on the NAS recommendations (Dalaker 2003). Thanks to the Bureau's efforts, we can come quite close to measuring US poverty with the UK method.

¹ See U.S. Census Bureau (2008). These data are unadjusted for changes over time in typical family composition.

² As of 1 October 2008 the Food Stamp program has been renamed as the Supplemental Nutrition Assistance program, or SNAP.

³ Food stamp data are from FNS (2008). EITC data are from Tax Policy Center (2008). Housing subsidies are from McCarty et al. (2008), table 12. TANF data are from US Department of Health and Human Services, Administration for Children and Families (2008). The Medicaid estimate is from Kaiser Family Foundation (2008).

US Poverty, UK-Style

How do we apply UK methodology to the US? In short, we change the measure of income and we change the standard. There is, we shall see, one big difference in approaches that we can't yet overcome, but the results are interesting nonetheless.

Let's backtrack a bit and review what we have to match. The source for UK poverty estimates is the Department for Work and Pensions Households below Average Income (HBAI) report (DWP 2008a). The HBAI definition of income (for income before housing costs) is sweeping, including: "net earnings; profit or loss from self-employment after income tax and NI [National Insurance]; all social security benefits and tax credits, including Social Fund grants; occupational and private pension income; investment income; maintenance payments; top-up loans and parental contributions for students, educational grants and payments; the cash value of certain forms of income in kind such as free school meals, free welfare milk and free school milk and free TV licences for the over 75s (where data is available)" (DWP 2008b, note 6). "Income tax payments; National Insurance contributions; contributions to occupational, stakeholder and personal pension schemes; insurance premia payments made in case of sudden loss of earnings; council tax; maintenance and child support payments made; and parental contributions to students living away from home" are all subtracted. Therefore instead of pre-tax, post-transfer cash income, we are working with post-tax (including a range of mandatory non-tax payments), post-transfer income. Post-transfer income includes benefits provided "in-kind" or earmarked for specific expenditures, such as "free welfare milk" and winter fuel payments. The most significant unaccounted benefit is probably the subsidy implicit in the below-market rents charged for units managed by local housing authorities or not-for-profit housing associations—"social housing" (Hills 2007). Similarly, the UK income measure does not include an estimate of the value of rent saved by the substantial majority of households resident in their own homes. Inclusion in official publications of measures of poverty "after housing costs" is one way of trying to avoid these problems (Brewer et al. 2008, 81-82).

We can more or less do the same with US data.⁴ We take all the cash income now counted in the poverty measure, add the value of educational benefits, Food Stamp benefits, subsidized school lunches, low-income energy assistance, maintenance and child support payments and other income received, and subtract net income taxes (thereby *adding* the EITC), mandatory payroll deductions, and property taxes on owner-occupied housing. There are lots of little differences left that don't account for much, including the fact that we don't have information on maintenance and child support payments paid, and we've doubts about the appropriateness of the way DWP accountants treat certain types of mandatory payments. But we're close in concept, especially when considering income before housing costs. What we're not close in is timeframe.

Here's the problem. The US poverty measure is based on responses to the Annual Social and Economic Supplement to the Current Population Survey (the CPS/ASEC) (U.S. Census Bureau 2006). The CPS/ASEC is a face-to-face interview with an adult respondent in approximately 60,000 households, conducted largely in March, with some interviewing in February and April.

⁴ Full disclosure is appropriate here. The CPS adjustments required to do what follows are quite complex, and their development has required several years of Census Bureau work. Our calculations are derived from a remarkable table generator devised by the Bureau for calculations with modified standards. See the generator web site, http://www.census.gov/hhes/www/cpstc/apm/cpstc_altpov.html.

Interviews are obtained in about 90 percent of the eligible (i.e. occupied) households that fall into the sample frame (US Census Bureau 2006, 16-3). The survey is timed to coincide with the mid-April deadline for filing federal and state income tax returns for the previous calendar year. Unlike in the UK, where most earnings taxation is pay-as-you-go and most households do not file annual tax returns, in the US the vast majority of individuals and families do file annually, and this means that at the time of conduct of the CPS most have a reasonably good sense of what their income was in the previous year.

Like the US poverty rate, the UK poverty measure is based on a household survey, in this case the Family Resources Survey. The FRS is conducted by the Department for Work and Pensions (DWP 2008a). The household participation rate is about 65 percent. The realized sample size is approximately 28,000 households, with 24,000 “fully cooperating.” Thus the FRS is smaller than the CPS (thus reducing precision), and response rates are lower (thus raising more serious concerns about bias). On the other hand, the FRS attempts to interview all adults residing at sampled addresses (rather than generally relying on a single respondent, as is done in the CPS), so the quality of incomes data may be higher. Unlike the CPS/ASEC, the FRS is a continuous sample, with interviewers in the field each month. The survey cycle is the fiscal year, from April through March. Income questions posed in the FRS focus on current time period, so if one is paid fortnightly, one reports that fact and fortnightly earnings. Based on amount and payment interval, these data are converted into weekly income measure. (Conversion to weekly basis for certain types of income follows more complicated procedures.) The end result, accumulated over the entire fiscal year cycle, is a sample-based distribution of weekly income, and this is the basis of the poverty estimates.

We can't match the weekly UK perspective with CPS data. Moreover, we're not sure we would want to if we could. There is considerable fluctuation in income over the course of a year for people in many professions and especially among the self-employed (Hills, Smithies, and McKnight 2006). Much of this fluctuation is no surprise, and people save or borrow to smooth out consumption over the ups and downs of the year. Thus in assessing real poverty, a longer perspective makes sense, but just what specifically that sensible interval should be is unclear. Whatever interval might be best, we can't duplicate the intervals used in UK data in the US. In addition, we must compare data collected for the calendar year in the US with data for the fiscal year in the UK. Therefore we will be comparing, for example, calendar year 2006 data for the US to 2006/2007 data for the UK, recognizing that only nine of the 12 months of 2006 are in FRS survey data for 2006/2007. Perhaps more important than this slight temporal mismatch is the likelihood that the higher-frequency data in the FRS will show much variability that would be averaged out were annual data to be used. This means estimated poverty rates will be higher using short-period data (as in the UK) than would be calculated using annual totals (as in the US). Our contemporary poverty comparison will therefore be biased against the UK.

That leaves us with a choice of standard and a small demographic comparability problem. We use the same OECD equivalence scale as the DWP employs, and we adopt as the poverty standard 60 percent of equivalised median income, adjusted as outlined above. We will identify children as anyone under age 18. The UK definition is somewhat more complicated and involves an assessment of independence, but under 18 is probably close enough. On the top end we will treat everyone age 65 or older as the equivalent of UK “pensioners” even though in the UK women are deemed pensioners at 60.

The latest available UK data are for 2006-2007, so we make our US calculations for 2006. The results appear in Table 2.⁵ For our reference family of four, 60 percent of median income (incorporating all of the adjustments cited above) is \$34,000, 66 percent higher than the official US standard. Using again the OECD purchasing power conversion, this is roughly equivalent to £22,150, significantly above the contemporary UK standard of £18,000. We do two calculations, one using 60 percent of median, the second using 50 percent of median. Consider first the comparison with the 60-percent-of-median standard. The difference between the two countries' results is dramatic across the board, but it is of course children who are of greatest concern in this discussion. For children US rates are some 32 percent higher than in the UK, 29 percent of the child population compared to 22 percent, using the relative income standard. This 29 percent finding is also 11 percentage points higher than the official US rate (see Figure 1). The differences are larger using the 50 percent standard and so the ratios of the 50 percent figure to the 60 percent figure in the third set of comparisons are significantly larger for the US than the UK. The implication is that not only is the relative poverty rate higher in the US than in the UK, but those who are poor in the US are typically in deeper poverty. Seventy-two percent of persons considered poor on the 60 percent standard in the US have equivalised incomes below half the median; this is true for 61 percent of persons similarly poor in the UK.

[Table USUKComp06](#)

Table 2: Contemporary Poverty Rates, 2006 (US) and 2006/2007 (UK)

Recall that given generally higher incomes, the US 60-percent-of-median threshold, recalculated in pounds, is significantly higher than the UK equivalent: \$34,400 (US) versus \$27,600 (UK) for the now overworked example family of four. What would happen were we to apply the UK contemporary standard to US data? By happenstance, it turns out we can come close using the data in Table 2. The UK 60 percent threshold is approximately equal in dollar terms to the US 50 percent threshold. Thus as a first approximation we can compare the numbers for the UK in the "Below 60%" column to the numbers for the US in the adjacent "Below 50%" column. For each age group, the two numbers are quite similar. If anything, judged on this particular UK standard the prevalence of child poverty is lower in the US. Nevertheless, the poor in the US are much worse off in comparison to the general living standard. Were the comparison to be pushed further, it is likely the outcome would depend on matters not accounted for in Table 2—the effect of much broader availability of subsidized social housing in the UK, differences in the proportion extremely poor, differences in the quality of available schooling and health care, and contrast in matters addressed in the UK's measures of material deprivation.

Unfortunately, available data (and space) do not allow us to address these matters or to push the US contemporary calculations back to 1998 for comparison with the UK 1998/99 baseline. We have calculated rates on the same basis for 2004 and 2005. As in the UK (but at higher levels), these numbers look much the same as those reported for 2006 in our table.

⁵ We are not the first to attempt a comparison of this sort. Dickens and Ellwood (2003) present much more detailed comparison over the period 1979-2001 and an interesting decomposition of sources of poverty decline in both countries during the 1990s. Their analysis differs from ours in that they use gross versus net income before housing costs and a different equivalence scale. Here we enjoy the advantage of better incomes data on both sides. As do we, Dickens and Ellwood show that a relative income standard pushes child poverty rates in the US significantly above rates in the UK (p. F224).

Conclusions and Opportunities

There are messages in all of this for those studying poverty in both the US and the UK. On the UK side, the time span for income assessment seems an important matter for study, and some consideration might be given to shifting analysis of poverty from current income to consumption, as recommended in the report of the US National Academy of Sciences. Consumption is generally a better indicator of access to resources than is current income. Finding ways to achieve higher rates of cooperation with the Family Resources Survey would seem essential as well given the signal importance of the FRS in assessing the government's progress.

On the US side, we hope that the new administration confronts the need for reformulating the poverty measure in a way that reflects both current living standards and current policy emphasis on support provided through things like the EITC, the Supplemental Nutrition Assistance Program, and housing subsidies (Blank 2008). Both sides need to review the way in which housing subsidies and the benefits from owner-occupied housing are incorporated in poverty assessment.

But nothing should distract from the most important question: However measured, how do we reduce poverty, especially among children?

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Table 1: The UK Poverty Achievement, 1998-2007

The UK Poverty Achievement, 1998-2007						
Percentage of Persons in Age Group Living in Households with Equilivised Income < 60% of Median						
<u>Age Group</u>	<u>Using Contemporary Median</u>			<u>Using Baseline (1998/1999*) Median</u>		
	1998/1999	2004/2005	2006/2007	1998/1999	2004/2005	2006/2007
All	19	17	18	19	11	12
Children	26	21	22	26	13	13
Working-Age	15	14	15	15	10	10
Pensioners	27	21	23	27	13	15

*Denotes UK fiscal year, April 1, 1998-March 31, 1999.
Source: Department for Work and Pensions (2008)
Table UKPOVACHIEVE

Figure 1: US Poverty Rates (Official Standard), 1997-2007

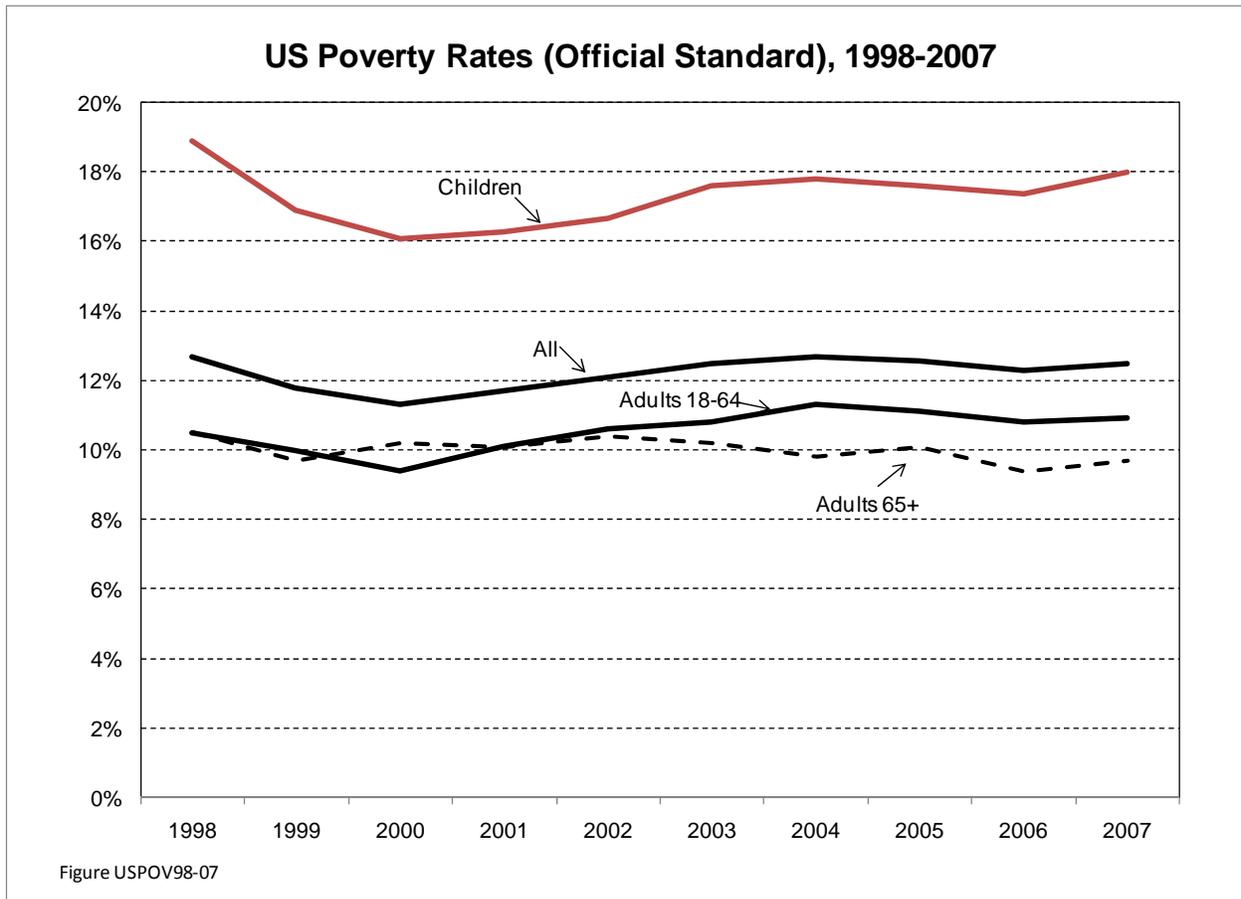


Table 2: Contemporary Poverty Rates, 2006 (US) and 2006/2007 (UK)

Contemporary Poverty Rates, 2006 (US) and 2006/2007 (UK)						
Percent of Equilivised Income before Housing Costs						
<u>Age Group*</u>	<u>Below 60%</u>		<u>Below 50%</u>		<u>Ratio, 50/60</u>	
	US	UK	US	UK	US	UK
All	23%	18%	17%	11%	0.72	0.61
Children	29%	22%	20%	12%	0.71	0.55
Working-Age	20%	15%	14%	9%	0.72	0.60
Pensioners	31%	23%	22%	13%	0.72	0.57

*For US data, children are persons age < 18, "working age" persons are adults 18-64, "pensioners" are persons age 65+. For UK data, children are persons < 16 or 16-19 and living with parents while in "full-time non-advanced education or in unwaged government training." Pensioners include women 60+, men 65+.

Source: UK Data from Department for Work and Pensions (2008); US figures calculated using procedures documented in Wiseman (2008).

Table USUKComp06