

POVERTY PROFILE 2007

METHODOLOGY, DEFINITIONS AND INFORMATION SOURCES

MEASURING POVERTY IN CANADA

Unlike many other countries, there is no official poverty line for Canada. In its absence, governments and non-governmental organizations use several different indicators to estimate poverty levels. The most commonly used are described below.

Many of these indicators are said to measure “low income” as opposed to poverty. In the absence of an official poverty line, the National Council of Welfare, and many others, considers these low income indicators to be useful ways of examining poverty in Canada.

IN THIS BULLETIN	
	Page
Measuring poverty in Canada (LICOs, LIMs, MBM, inequality)	1
Data sources	4
Methodology (calculating poverty rates, dollar figures, rounding, data quality)	5
Definitions (family type, income concepts)	6
Key sources of information (Canada and international)	8

Provincial Poverty Lines

Some provinces have selected specific poverty measures to use in the evaluation of their provincial poverty reduction initiatives.

- In **Newfoundland and Labrador**, the government chose to use available information and measures to understand poverty in the province. It uses after-tax LICOs as a benchmark and ongoing basis upon which to measure progress.
- In **Ontario**, the government will use a Low Income Measure set at 50% of the median adjusted family income, as well as one set at 40% to track the number of people living in deep poverty. They will also develop a deprivation index to determine the number of households in the province with access to an acceptable standard of living.

Low income cut-offs (LICOs)

Statistics Canada's LICOs represent levels of income below which a family spends a larger share of its income for the necessities of food, shelter and clothing than the average family. This is defined by Statistics Canada to be 20 percentage points higher than that of the average family.

Expenditure data shows that the average family spends 43% of its after-tax income (35% of before-tax income) on food, shelter and clothing. Families with incomes that fall below the LICO levels are

spending 63% or more of their after-tax income (55% of before-tax income) on these three necessities.

Before-tax LICOs use total income including government transfer payments, but before the deductions of federal and provincial income taxes.

After-tax LICOs use income after the payment of federal and provincial/territorial income taxes, but not other kinds of taxes that affect disposable income such as payroll taxes, sales taxes or property taxes.

The low income cut-offs vary by the size of the family unit and the population of the area of residence. There are seven categories of family size, from one person to seven or more persons, and five community sizes ranging from rural areas to cities with 500,000 or more residents. The result is a set of 35 cut-offs. The cut-offs are updated annually by Statistics Canada using the Consumer Price Index.

The LICOs are the most widely available measure of low income in Canada with the most extensive historical series.

Poverty measures: why we need them

The National Council of Welfare developed four cornerstones to reflect the most important and workable first steps to a strategy for solving poverty in Canada. The fourth cornerstone is a set of agreed poverty indicators that will be used to plan, monitor change and assess progress.

An indicator can be defined as something that helps us to understand where we are, where we are going and how far we are from our goal. In an anti-poverty strategy, indicators help us understand the current state of poverty, set targets for reducing and eliminating poverty and show us how close we are to achieving these targets.

Poverty indicators are not developed in isolation. They are tools we use to achieve our vision and goals. Our vision and overarching goals must be set before we can look at which indicators can help us plan, monitor and assess our progress so we know whether we have been successful. Certainly, for an anti-poverty strategy, one key type of indicator will be direct measures of poverty, which are usually based on income.

We may need to start, however, by discussing what we mean by poverty in Canada. Then we can figure out how best to measure it. Given the many dimensions of poverty, we may not be able to find one measure that gives us a perfect picture. We need to remain open to the idea that it may turn out to be more useful to develop or adopt multiple measures of poverty.

We need indicators in order to set measurable targets, create action plans and ensure governments are accountable for results. These are cornerstones of any anti-poverty strategy. We can have a vision for reducing and eliminating poverty in this country, but without targets, plans and accountability, it will not translate into better lives for Canadians.

Excerpt from the National Council of Welfare Solving Poverty Toolkit – [Cornerstone #4](#)

Poverty measure used in the bulletins

We are using LICOs to analyze poverty in the *Poverty Profile 2007* bulletins, with a focus on after-tax LICOs. Users who require data using before-tax LICOs can contact the National Council of Welfare for more information.

Low Income Measures (LIMs)

Statistics Canada's LIMs are based on one-half (50%) of median family income, adjusted for family size. A family with an income below this level is considered to live in low income.

Adjustment for family sizes reflects the fact that a family's needs increase as the number of members increases. For instance, it costs more to feed a family of five than a family of two.

Statistics Canada calculates LIMs using market income, before-tax income and after-tax income. LIMs vary with family size and composition, but unlike LICOs, they are the same in all parts of the country. This means they do not reflect the different costs of living across the country. For example, the LIM for a family of four in Toronto would be the same as the LIM for a family in Charlottetown or Moose Jaw.

A percentage of median family income adjusted for family size is the approach most often used in international comparisons of poverty. The European Union uses a LIM set at 60% of median income to calculate an at-risk-of-poverty rate.

Market Basket Measure (MBM)

The newest measure of poverty in Canada is the Market Basket Measure (MBM). The MBM was developed in response to a request in 1997 from the federal, provincial and territorial ministers responsible for social services.

The MBM is based on the cost of buying a specified basket of goods and services in the local marketplace. This means that the measure is sensitive to differences in the cost of the basket in different parts of Canada.

A family that has an income below that required to purchase the basket of goods and services in their community is considered to live in low income.

What's in the basket?

Food, clothing and footwear, shelter, transportation, and other goods and services such as expenditures on personal care, basic telephone service, school supplies and modest levels of reading material, recreation and entertainment.

The MBM methodology involves a number of adjustments to family income, including deductions for child care costs, child support payments, payroll taxes and contributions, certain out-of-pocket expenses for health care and the cost of prescribed aids for persons with disabilities. The end result is income that approximates disposable income, rather than the simple definitions of total income or income after income taxes that are used in many other poverty measures.

A separate bulletin examines poverty in Canada using the Market Basket Measure, highlighting differences between it and the LICOs.

Other measures

The Montreal Diet Dispensary calculates the income needed to meet basic needs in Montreal, as well as a minimum adequate standard of living.

Chris Sarlo's Basic Needs poverty lines are intended to measure the number and proportion of Canadians who cannot afford the basic necessities of life, such as food, clothing, shelter, and other household essentials.

Comparing poverty lines

The chart shows nine different measures of poverty for a family of four in Canada in 2007. Where possible, the poverty lines displayed are for a large Canadian city.

Many of the different poverty measures available give similar results. The lowest poverty line is Sarlo's Basic Needs, set at \$23,355 for Canada. The highest poverty line is set at \$40,259 using the before-tax LICO for a large city. Most of the remaining poverty lines are within a few thousand dollars of each other.

Inequality

Poverty indicators concentrate on the situation of those at the bottom of the income scale. Inequality, on the other hand, shows how resources are distributed across the whole society.

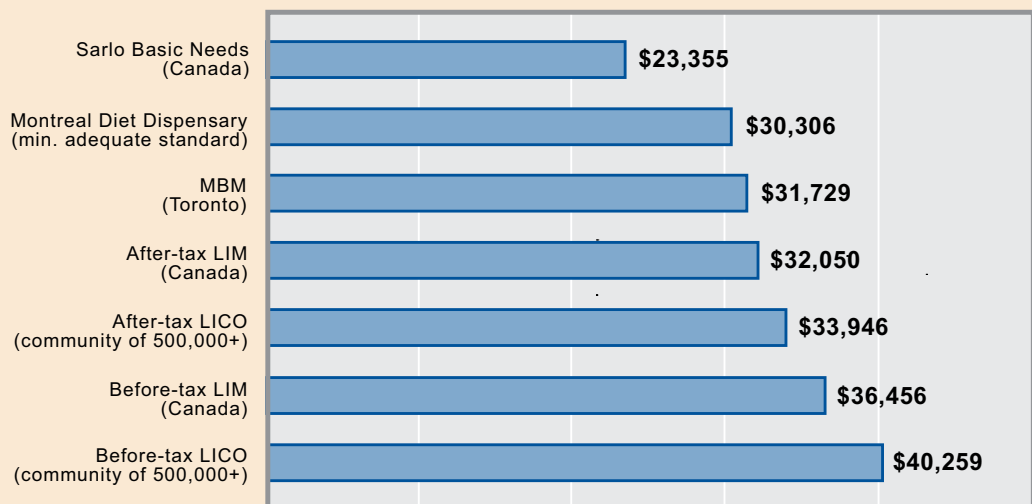
Data about inequality is essential to understanding poverty. The distribution of resources in a country can affect the extent and depth of poverty.

In a separate bulletin, we look at income inequality in Canada, and compare the trends for those at the top to those at the bottom.

DATA SOURCES

The poverty statistics used in these bulletins were obtained from Statistics Canada's annual household survey on the incomes of Canadians, unless otherwise noted. Some of this survey data was obtained through custom tabulations ordered and paid for by the National Council of Welfare. The rest of the data, particularly the

Many of the different measures of poverty give similar results
Selected poverty lines for a family of four, 2007



Note: Sarlo Basic Needs updated to 2007 by the National Council of Welfare using the Consumer Price Index.

historical data, can be accessed for free on Statistics Canada's website under [Income Trends in Canada 1976-2007](#) (Catalogue no. 13F0022XIE).

The most recent data available from Statistics Canada is for 2007.

The early statistics in this report for 1976 to 1992 come from the former Survey of Consumer Finances (SCF). The statistics for 1998 to 2007 are from the Survey of Labour and Income Dynamics (SLID). Estimates for the 1993-97 period are based on the combined sample of both SLID and SCF.

Changes to 1993-97 data

In the past, Statistics Canada used the Survey of Consumer Finances (SCF) for estimates from 1976-1995 and the Survey of Labour and Income Dynamics (SLID) for estimates from 1996 and onwards. With the release of the 2007 data, Statistics Canada is now basing the historical 1993-97 estimates on the combined sample of both SLID and SCF.

SLID, like SCF, yields data on income every year, but it has the added advantage of following the same group of people for six years to see how their circumstances change over time.

The SLID survey for 2007 was conducted in January to March 2008 on a sample of approximately 30,000 private households in Canada. The sample does not include residents of the Yukon, the Northwest Territories and

Nunavut, persons living on Indian reserves and residents of institutions. Overall, these exclusions amount to less than three percent of the population.¹

The survey collected data about incomes for the 2007 calendar year

METHODOLOGY

Calculating poverty rates

Poverty rates compare the number of poor persons or families in a particular category to all the persons or families in the same category.

For example, in 2007 there were:

- 6,705,000 children in Canada; and
- 637,000 of them were living in poverty.

The poverty rate was 637,000 divided by 6,705,000, or 9.5%. So 9.5% of all children in Canada lived in poverty in 2007.

$$\text{Poverty rate} = \frac{637,000 \text{ poor children}}{6,705,000 \text{ total children}} = 9.5\%$$

Poverty rates are based on **family incomes**. That is, the income from all family members aged 16 and over is added together. If this total falls under the poverty line, all family members are considered to be living in poverty, regardless of how much each person earns.

Since family members normally support each other financially, it makes sense to look at families as economic units rather than considering each member of a family in isolation from the other members.

¹ Statistics Canada. Survey of Labour and Income Dynamics (SLID) – Detailed information for 2007. <http://www.statcan.gc.ca/cgi-bin/imdb/p2SV.pl?Function=getSurvey&SDDS=3889&lang=en&db=imdb&adm=8&dis=2> (accessed July 22, 2009)

Sometimes, the terms **incidence of poverty** or **risk of poverty** are used instead of the poverty rate. The meaning of all three terms is the same.

Dollar figures

All dollar figures presented in these bulletins have been converted to 2007 constant dollars. This factors out the effects of inflation and allows meaningful comparisons of data over time.

Rounding

In some tables and charts, the components may add up to a thousand more or a thousand less than the displayed total. This is because Statistics Canada derives all its estimates from unrounded components and then rounds them to the nearest thousand. The totals are not calculated by adding up the rounded components.

Data quality

Quality indicators are available from Statistics Canada for the estimates from 1993 to 2007 presented in *Income Trends in Canada 1976-2007*. Where applicable in the *Poverty Profile* bulletins, a notation indicates if an estimate should be used with caution. These estimates have coefficients of variation greater than or equal to 16%.

DEFINITIONS

Family type

Family: a group of two or more people who live in the same dwelling and are related to each other by blood, marriage, common-law or adoption.



Unattached individual: a person either living alone or living with others to whom he or she is not related, such as roommates or a lodger.

Classification of family types

Statistics Canada uses the concept of major income earner to classify families. In a family, the **major income earner** is the person with the highest income before tax.

All families, two persons or more

Elderly families

- Married couples
- Other elderly families

Non-elderly families

- Married couples without children
- Two-parent families with children
- Married couples with other relatives
- Lone-parent families with children
 - Male lone-parent families
 - Female lone-parent families
- Other non-elderly families

Unattached individuals

- Elderly male
- Elderly female
- Non-elderly male
- Non-elderly female

Non-elderly: the major income earner is less than 65 years old.

Elderly: the major income earner is aged 65 or over.

Married couples/spouses: includes legally married, common-law and same-sex relationships, where one of the spouses is the major income earner.

Children: child (by birth, adopted, step, or foster) of the major income earner, under age 18.

Other relatives: a person in the family who is not the major income earner nor his/her spouse or child under age 18.

The term **married couples without children** does not necessarily mean that the couple does not have any children. It means that the couple does not have any children under age 18 who live with them.

Income concepts

Statistics Canada collects information about income for people 16 years and older.

Total income = market income + government transfer payments

After-tax income = total income – federal and provincial income taxes

Market income

The sum of earnings, net investment income, (private) retirement income, and other income such as scholarships and child support payments.

Earnings include earnings from both paid employment (wages and salaries) and self-employment.

Government transfer payments

All direct payments from federal, provincial and municipal governments to individuals or families. Includes:

- child tax benefits
- Canada and Quebec Pension Plan benefits
- Old Age Security benefits and Guaranteed Income Supplement/Spouse's Allowance
- Employment Insurance benefits
- social assistance from provincial and municipal programs
- workers' compensation benefits
- GST/HST credits
- provincial and territorial tax credits
- any other government transfers

KEY SOURCES OF INFORMATION

Canada

[Statistics Canada](#) collects and publishes data about income in Canada. The main source of income data is the Survey of Labour and Income Dynamics. Many tables, including some about low income, are available on Statistics Canada's website under [Income Trends in Canada 1976-2007](#). Statistics Canada also publishes an [update](#) of LICOs and LIMs every year which includes a detailed description of the methods used to arrive at each measure.

Human Resources and Skills Development Canada periodically releases reports on low income using the Market Basket Measure. The latest [report](#) covers the years 2000 to 2007.

In addition to the National Council of Welfare, many organizations regularly publish reports about poverty in Canada, including the [Caledon Institute](#) of Social Policy, the [Canadian Centre for Policy Alternatives](#), the [Canadian Council on Social Development](#), [Campaign 2000](#), [Food Banks Canada](#) and [Vibrant Communities](#).

International

If you are interested in knowing how Canada compares to other countries, try these sources.

OECD: The Organization for Economic Cooperation and Development provides comparative statistics and reports on [social and welfare issues](#).

UNICEF: The [UNICEF Innocenti Research Centre](#) in Italy produces reports on child poverty in rich countries.

UNDP: The United Nations Development Programme publishes the annual [Human Development Report](#). This report includes an index of quality of life as well as standard of living indicators.

There also many sources of information about poverty in Europe. Here are just a few.

EU: In 2000, European Union leaders established the [Social Inclusion Process](#) to make a decisive impact on eradicating poverty by 2010.

[Eurostat](#): The official statistical agency of the European Union. Its survey of [Community Statistics on Income and Living Conditions](#) (EU-SILC) is the main source for comparable annual data on poverty and inequality in the European Union.

EAPN: The [European Anti-Poverty Network](#) produces regular reports, briefings and tool kits on poverty and social exclusion in the European Union.

www.ncwcnbes.net

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