

By Jarrett Skorup
& James Hohman

An Assessment of ALICE:

A Misleading Measure of Poverty



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Mackinac Center for Public Policy 140 West Main Street P.O. Box 568 Midland, Michigan 48640
989-631-0900 Fax: 989-631-0964 Mackinac.org mcpp@mackinac.org

The Mackinac Center for Public Policy

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By Jarrett Skorup and James Hohman

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Introduction

United Way, a nonprofit organization that provides a variety of services to local communities, among other things, sponsors and publishes research that measures how many households are above the official poverty level but still struggle financially. This is an important question, as better understanding this population could help identify and target appropriate interventions or support systems. The organization's intent is a good one, and we are supportive of this effort and the general mission of the United Way. In fact, we have both financially supported local United Way chapters. Unfortunately, United Way's research on this issue is methodologically flawed, misleading and does not help inform the public or policymakers about how to help these households.

"ALICE" is an acronym for "asset limited, income constrained, employed." ALICE reports are a series of publications released every couple of years by United Way that estimate how much certain households spend annually on a variety of goods and services and compares that amount to reported annual household income. The goods and services included are meant to represent the annual costs of "basic necessities" and include housing, food, transportation, child care, health care, taxes, smartphones and more.¹ The percentage of households with annual income below these estimated costs but above the official federal poverty level are labeled ALICE and are said to be unable to afford "the costs of household basics."²

The number of ALICE households identified in United Way's published reports is surprising. For instance, based on 2019 data from Michigan, households consisting of multiple people are said to be unable to "afford household necessities" if they earn less than \$64,116 in annual income.³ For single adults living alone, this amount is \$23,400, and for a single senior citizen, it is \$26,224. In 2019, 38% of Michigan households had incomes below these "survival budgets," as the report calls them.⁴ In other words, more than a third of Michigan households do not earn enough income to survive.

Oddly, this research does not identify the portion of households that meet the ALICE definition. In fact, despite the acronym, the methodology does not even attempt to measure asset limitations, income constraints or employment levels of the population it purports to study. The reports do not offer evidence that households labeled ALICE have these characteristics — they simply assume that they do. The research amounts to merely calculating how many households earn below a certain threshold and then declaring that all of these households, regardless of their size or circumstances or needs, have limited assets, constrained income and are employed.

The thresholds are developed by creating hypothetical household budgets. These are estimated for just three scenarios: single adults under 65 living alone, single adults 65 and older living alone and families of four consisting of two adults and two young children. The hypothetical budgets are constructed using data about average spending on certain goods and services. All households must meet these spending requirements, even if they have no need for such items or can meet their needs by purchasing these goods and services at a below-average cost. As such, the ALICE methodology exaggerates the minimum costs required to meet the basic needs of most households.

These reports also rely heavily on unsupported assumptions, use calculations that misestimate their target population and, at times, mispresent their own findings.

This study reviews the ALICE reports and explains several problems with the methodology. It also demonstrates how these results have been misinterpreted and misused in the media and elsewhere. Ultimately, the ALICE reports fail to provide a valid estimate of the financial situations of the people it intends to study and does more to mislead policymakers and the public than it does to inform them. As such, these reports distract from the real needs faced by households that struggle to make ends meet.

Background

The first ALICE report was released in 2009 as a pilot project for Morris County, New Jersey — one of the wealthiest counties in the country.⁵ United Way started publishing ALICE reports based on state-level data in 2012.⁶ These quickly garnered media attention, seeing coverage in hundreds, perhaps thousands, of newspaper articles, including the Associated Press.⁷

The following headline was typical and variations of it were published repeatedly: “XX% of Families in [State] Can’t Afford Basic Needs.” The model has gained traction with a variety of large foundations and corporations. The United Way lists dozens of companies, business groups and other organizations that have signed up as advisors or sponsors of the ALICE report.⁸ Politicians frequently cite ALICE reports. For instance, Gov. Gretchen Whitmer referenced it to justify creating the Michigan Poverty Task Force in 2019.⁹

Misleading Moniker

Despite the ALICE acronym — “Asset Limited, Income Constrained and Employed” — the report does not measure the assets, income constraints or employment levels of households.

The ALICE project claims to study households and people who are “asset limited, income constrained and employed,” hence the acronym. It argues this is important because people in this group may be falling through the cracks of the conventional poverty relief efforts by federal, state and local governments and by charitable organizations like United Way.

But the ALICE reports do not consider these people’s assets, nor how constrained their incomes are nor their employment status. So, when the latest report claims that 25% of Michigan households meet the definition of ALICE, for example, it does not mean that these people actually have limited assets, income constraints or are employed. The report simply assumes that they have these characteristics.

To be clear, some households categorized as ALICE may have these characteristics. The problem is that these reports do not assess to what extent this is true for the households it labels ALICE. As explained in the next section, the reports simply assume that all households with incomes below a specified amount have these characteristics. Without a doubt, many households the reports labels ALICE do not meet this definition.

Meaningless Measurement

The report ignores the different financial needs of households when measuring how many should be labeled ALICE, failing to account for even basic differences such as household size.

ALICE reports use a flawed method to estimate the number of ALICE households. Its statistical calculation lumps together households of all different sizes when determining how many earn less than the income threshold informed by the hypothetical household budget created in the report. This is surprising because the study presents different budgets based on the size of households, but then ignores these differences when calculating how many households fall below these budgetary thresholds.

The latest Michigan report estimates the number of households in the state that earn below a certain threshold by using county-level data. Michigan's 83 counties each get a different ALICE threshold for households headed by someone under 65, ranging from \$35,000 in Alcona and 10 other counties to \$60,000 in Leelanau and Alger counties. Senior household thresholds range from \$35,000 in Iosco and five other counties to \$50,000 in Oakland and Leelanau counties.¹⁰ These county-specific thresholds are determined by adjusting the hypothetical household budgets based on the average household size in each county.¹¹

The report then uses data from the U.S. Census Bureau that provides the number of households in a variety of different bands of income: earning less than \$10,000, earning between \$10,000 and \$15,000, earning between \$15,000 and \$20,000, etc.¹² This information is available at the county level, and the report counts the number of ALICE household in each county by simply tallying up the number of households reporting income below the county-specific ALICE threshold. These results are then aggregated to produce the total statewide figure: 38% were labeled ALICE in 2019, according to the most recent report.

But this method counts any household, no matter their size or circumstance, that earns less than these thresholds as ALICE. The size of a household obviously has a significant impact on its financial needs. This factor needs to be taken into consideration when assessing how much income households may need to meet its spending needs. Ignoring it leads to overcounting how many households are financially struggling, and because of this, the results of the ALICE reports are incorrect and misleading.

Treating all households as if they have the same financial needs is even inconsistent with the ALICE report itself. It recognizes that different types of households have different needs by creating three different hypothetical household budgets. Ignoring this factor when tallying up the numbers in each county leads to seemingly contradictory conclusions. For instance, households that earn more than the reports' own hypothetical budgets but less than the county-based threshold will be counted as ALICE, even though they do not meet the report's own definition of an ALICE household.

Consider Macomb County, where the report establishes a budgetary threshold of \$50,000 for nonsenior households and \$45,000 for senior households.¹³ There are 82,086 nonsenior

households that earn less than \$50,000 in Macomb County, according to data from the U.S. Census Bureau.¹⁴ All of them are counted as ALICE households. This includes single individuals who earned more than the \$23,400 the report claims is needed to avoid financial struggle.¹⁵ In this particular case, one-person households in Macomb County could have twice the income of the report's hypothetical single-person budget and still be counted as ALICE.

This creates a definitional problem for the conclusion that 38% of households meet the ALICE criteria. Despite the report insisting that it measures households who cannot afford necessities, it ultimately simply counts the number of households that earn less than an amount between \$35,000 to \$60,000, depending on the county, and labels them all ALICE.

This is a serious misuse of the report's own estimates and makes the findings unreliable. The report is incorrect in saying that the ALICE households it has identified earn "less than the basic cost of living for the state," because some of those households earn more than the thresholds created in the report itself.¹⁶

Misestimating the Financial Needs of Households

The ALICE methodology uses average spending to represent minimum costs and relies on estimated financial needs of atypical households to represent the average needs of all households.

Even if these reports properly factored in the different spending needs of households based on their size and other factors, there are still problems with how the reports estimate minimal financial needs. The hypothetical budget thresholds created in the report to determine if a household should be labeled ALICE rely on questionable assumptions that the report does not justify, and the results overstate how many households are struggling financially.

Using Average Spending Levels to Estimate the Costs of Basic Goods

The ALICE reports claim to estimate the "minimal total cost of household essentials" when determining how much income is needed to "afford the basic necessities."¹⁷ Rather than measuring the minimum costs of essential goods and services, however, the reports rely on data on average consumer spending. This is an inappropriate conflation of two distinct statistics — minimum costs cannot be estimated by average spending amounts. When the latest report claims that 38% of households in Michigan cannot afford essential goods, it does not mean that these households cannot afford to purchase necessities. Instead, it means these households likely spend less than average on a selected set of goods and services — a much less meaningful result.

For example, the measurement for the costs of housing is determined by using the U.S. Department of Housing and Urban Development's Fair Market Rent Studies.¹⁸ The ALICE reports use the rent costs for the 40th percentile for one- and two-bedroom housing units for its estimate of minimum costs. But, by definition, this does not represent the minimum costs of housing. In fact, the HUD figures indicate that 40% of other housing options are available at a lower cost, and why the report assumes that every household needs to pay this average amount is not explained.

More specifically, in the latest ALICE report, the minimum need for housing costs is listed at \$779 per month for a multiple person household. This is the 40th percentile of housing costs based on surveys of what people pay for a two-bedroom home or apartment.¹⁹ By definition, there is housing available for less than that — all those that fall below the 40th percentile. This housing may not be as spacious, modern or in as desirable of a location, but that does not mean it cannot meet a household's needs. The ALICE report assumes that a household spending \$700 per month on rent cannot afford any housing until they spend at least \$80 more.

This criticism applies to other measures in the report that are used to estimate the costs of basic needs. The technology category is “the cost of a basic smartphone plan for each adult” and is listed as costing \$55 for a single-adult household and \$75 for all households with two or more people.²⁰ This was derived from an article published by Consumers Report that compared the costs of phone plans available from just three companies.²¹ A simple web search finds many phone plans available from other companies at half those costs, or less.* The ALICE report misinterprets some information about the average costs of some goods by declaring them to be a useful estimate of the minimum costs of basic needs.

The same approach is used in the report for child care costs, estimated to be a minimum of \$1,122 per month.²² This is based on a survey of spending set at the 75th percentile.²³ This is at least an attempt to measure what child care costs, but, again, this amount varies wildly in the real world and this bare minimum estimate is more than what most people actually pay. Why everyone needs to spend at least what 75% of people currently pay is not explained. Either way, this is not a valid estimate of the minimum costs needed to afford child care.

Food costs come from the “Thrifty Level” USDA food plan, which is based in part on survey data of what food low-income people purchase, but also estimates the cost of purchasing food that would satisfy a recommended, balanced diet.²⁴ The USDA notes that estimating food costs in this way “incorporates average consumption, [but] it does deviate from average consumption to satisfy the dietary standards of the plan.”²⁵ In other words, this measure is part a reflection of what people pay for the food they eat and part what they would spend if they followed the government's dietary recommendations. This may overestimate what is needed to survive, as most people do not purchase food based on dietary recommendations offered by government officials. As the USDA also notes in its report, “Only a small percentage of Americans has a good diet.”²⁶

Snapshots of average spending levels can hide general trends

Another reason using average spending levels to estimate the costs of necessities can be misleading is that it fails to capture broad-based changes over time. For instance, when average spending increases on some items, it could be a sign that prices are rising and these goods are becoming harder to afford. But it could also be the case that consumers are simply choosing to

* Whistleout.com, for example, allows users to compare cell phone plans from many different providers. At the time of this writing, dozens of different plans were available for less than what the ALICE report claims is the minimum costs required to afford this service.

increase their spending on these goods and services. This could happen even while the minimum costs of these items remain unchanged or even decreases. The ALICE reports assume that all increases in their average spending figures over time indicate that goods and services are becoming harder to afford.

And, indeed, the reports' hypothetical household budgets based on average spending steadily increase year after year. The budget based on the needs of a family of four increased from \$50,345 in 2012 to \$64,116 in 2019, a 27% increase.²⁷ The single-person household budget went from \$16,818 to \$23,400, a 39% increase.²⁸ Inflation over that period, according to the 2019 ALICE report, increased just 12%.²⁹

This could reflect a jump in the minimum costs of the goods and services built into these budgets. But the reports' method is unable to say one way or the other, despite numerous assertions in the text that necessities are becoming less affordable.³⁰ So, these reports err when they claim that the number of ALICE households has increased from one year to the next or that it is becoming more difficult to afford the basics, because they do not demonstrate that the minimum costs of household necessities have increased.

Determining needs based on average spending levels results in a sizable portion of the population unable to make ends meet

A related problem with relying on average spending levels is that it ensures that a sizable portion of households will always appear to be struggling financially. By definition, about half of households will spend below these averages. In fact, using this metric makes it impossible for the ALICE population to decrease substantially. Or, put another way, even if the income of every household in Michigan grew significantly, about half of these households would likely still be spending less than the average figure, and therefore, according to the ALICE methodology, still be deemed unable to afford basic necessities.

If society is generally growing richer, it is possible for a household to become better off even while their level of spending is outpaced by the average figures. The same is true in reverse: Households are not necessarily better off if their spending more closely aligns with the averages if those average levels are falling.

To illustrate, consider a family who spends exactly the same amount on the same goods one year as they did the last — house payments, grocery bills, car payments, child care, entertainment and recreation, utilities, taxes, etc. Now imagine their neighbor buys a new, expensive SUV, driving up the average spending on transportation. Did this hypothetical family get poorer as a result?

The answer, of course, is “no,” but the ALICE report's methodology says “yes.” That some people are able to spend more does not mean that others are necessarily worse off. The ALICE methodology treats household wealth as if it is a pie to be distributed — where if one household gets a bigger piece it must mean that another has a smaller piece. But that's not how wealth or economies work. Technological improvements and innovation often benefit consumers by enabling them to get more goods and services or higher quality goods and services for the same

cost or less. Based on the ALICE report assumptions, any reduction in spending, even if more consumers are better off in the end, is a signal that people are getting poorer.

In sum, using average spending data to estimate the minimum costs of basic needs for households is inappropriate. The average levels of spending by households is more representative of consumers' preferences for certain types of goods or levels of services than it is of the bare minimum costs needed to afford these items. It implies that people are struggling financially when their spending does not match the overall average, and that they automatically become poorer if they do not keep up with increases in average spending levels.

Inconsistent and Unreliable Budget Estimates

There are other problems with the hypothetical budgets these reports rely on to estimate ALICE households. These budgetary estimates fluctuate in ways that should raise red flags, or, at least, require a robust explanation. But the reports do not provide good explanations for these fluctuations, and, as such, appear to be either relying on inconsistent data or tweaking the methodology in ways that would not allow meaningful comparisons over time. This contributes to the unreliability of the estimated survival budgets.

For instance, the estimated costs for health care used in the ALICE reports for Michigan swing wildly from year to year. These costs for a four-person household increased by 37% from 2012 to 2015 and then rose by another 26% from 2015 to 2017. But they crashed back down by 36% from 2017 to 2019, nearly back to their 2012 level.³¹ If the data these reports use is consistent over time, these abrupt changes should be explained, as they would have a large impact on how many households the report will wind up labeling ALICE.

Estimated costs of other goods can make sudden jumps from year to year as well. The family budget for transportation and food remained steady from 2012 to 2017, changing by only a few percentage points.³² But then from 2017 to 2019, the ALICE report says these costs increased by 34% for transportation and 31% for food.³³ If transportation and food costs increased by one-third in Michigan over a two-year period, one would think the report would highlight this, as it would have a significant impact on the financial situation of ALICE households. The report should explain why these increases are not the result of a methodological tweak, change in data source or explained by some other phenomenon. But the latest report makes no mention of these dramatic increases in these estimated costs.

Another unexplained and curious element of these budgets is the estimates used for the taxes paid by Michigan households. The annual cost of taxes steadily increased from 2012 to 2019, according to ALICE reports, more than doubling from \$277 to \$589 over the period.³⁴ While there have been some tax changes at the state and federal level during this period, it would require a significant tax hike to produce these kinds of increases. The reports do not explain the cause of this increase, leaving open the possibility that newer reports added new tax costs not included in previous reports. That would undermine the reliability of this methodology for tracking the financial situation of the populations over time, as the report purports to do.

Using Atypical Households to Represent All Households

Using the ALICE reports' hypothetical household budgets to estimate the financial wellbeing of every household in Michigan is inappropriate for another reason: The estimated costs are based on the needs of atypical households. The latest report generates estimates for just three types of households. A single adult household, a single senior, and a household with two adults, an infant and a preschooler. These estimates are \$23,400 for a single-person household, \$26,244 for a single senior and \$64,116 for the four-person household.³⁵ But these are atypical households and face different costs than most others. Using these hypothetical budgets as the baseline to estimate the typical financial needs of all households is inappropriate.

A companion document to these reports explaining further details about the ALICE methodology claims these households to be the “three most common household compositions.”³⁶ But that is not correct. In fact, that same document just a few pages earlier, illustrates this. A chart shows that both two-person and three-person households are more common in the U.S. than are four-person households.³⁷ And households with two young children, one in preschool and one in day care, is only a subset of the group of four-person households. The ALICE reports, however, make no effort to explain why a family of four with two young children should be the baseline for estimating the needs of every single household in Michigan consisting of more than one person.

In fact, only 5.2% of households in Michigan contained more than one child under six years of age in 2019.³⁸ Nationwide, only 2.9% of households had two children under the age of six in 2019.³⁹ The average household size in Michigan is less than 2.5 people.⁴⁰ It is an improper comparison to estimate the spending needs for a very specific, atypical group and then assume that those costs must be equally met by all other households. A family with two young children not yet of school age face significantly higher costs than other types of households.

To illustrate the problem with this approach, consider a family of four with school-age children enrolled in public schools. While this household is similar to the one used in the ALICE methodology, it faces significantly different costs because it no longer pays for child care. The ALICE report, though, assumes that this household needs to spend more than \$1,100 per month for child care. If it does not earn enough to cover those costs, the methodology determines that this household cannot make ends meet. These estimated costs are even further disconnected and inappropriate to use for households that differ more significantly from the report's model four-person house.

The ALICE report not only assumes all households with children need to pay for child care; it assumes that all households with more than one person must endure these costs. In other words, it lumps together and estimates the same spending requirements on a two-person household with no children as it does a large family, and everything else in between. The composition of households is more varied and diverse than the ALICE report assumes, and this is a fundamental flaw of the report, inflating the estimated financial pressures faced by most Michigan households.

Assuming all households need to pay for child care has a big impact on the household budget estimate. According to the ALICE report, child care costs amount to one fifth of a total household survival budget. Without them, the threshold to meet the survival budget decreases from \$64,116 to \$50,652. Since most households do not face child care costs, this figure would better represent the typical household spending needs than the budget built in the ALICE reports.

This is not to say that child care costs ought to be ignored. But consideration needs to be given for the fact that these costs are borne by only a small fraction of the general population and should not be included when estimating the needs of the typical household. Using an atypical family situation and cost pressures as the threshold likely overstates the portion of people the ALICE reports are trying to identify and quantify, because many of those households will face lower costs and can meet their needs without spending as much as the hypothetical household used in these reports.

Exaggerations and Unjustified Assumptions

Households with income below a certain amount are said to be unable to meet the basic needs of survival and face a host of other problems, but virtually no evidence is provided for these assertions.

The ALICE reports make a number of unjustified assertions and assumptions about the households that supposedly meet the ALICE criteria. It also uses inaccurate and exaggerated terminology to describe the financial issues facing these households. The reports provide little evidence that these descriptions are justified.

“Survival” Budgets

The most common misused term in these reports is “survival.” It is repeatedly used to describe the hypothetical budgets households must meet, giving the impression that this is an issue of life and death. For instance, the report criticizes the federal measure of poverty, claiming it is “far below what any household actually needs to survive.”⁴¹ ALICE households, who have income above the federal poverty level but below the budgets built by the reports, are said to be lacking “the essentials needed to live and work in the modern economy.”⁴²

If this were true, it would be devastating and tragic. It would mean that roughly 16 million households nationwide with income below the federal poverty line are on the brink of starvation and death. Another 35 million households earn income above the federal threshold but below the ALICE “household survival budget,” implying that they also cannot afford to go on living.⁴³ In Michigan, this would mean over a third of all households are hanging on to life by a thread.

This is hard to believe on its face when considered in historical context. From 1979 to 2016, in real, inflation-adjusted dollars, average household income in the United States grew by 60%.⁴⁴ In Michigan, inflation-adjusted per capita income more than doubled from 1970 to 2020.⁴⁵ In addition to growth, governments have substantially increased payments to assist poor households.⁴⁶ These facts suggest that the very households that produced the people who are alive today were even less able to afford the basics needed to survive. In other words, history

shows it is possible to survive while earning less than the ALICE “survival budget,” which makes the term inaccurate.

The reports may be using the term “survive” in a way that deviates from its common meaning: to cease from dying. Perhaps it means something less drastic, such as meeting a certain standard of living that results in a fulfilling existence or basic level of contentment. But if that is the case, describing these thresholds as needed to meet a “basic standard of living” or “minimum level of contentment” would be more accurate. Using the term survival gives the impression that life is in the balance if a household fails to earn income over these thresholds, which is clearly not the case and makes the term an exaggeration.

Unsupported Assertions

The 2019 ALICE report for Michigan provides many examples of assertions that are not supported with evidence. The executive summary of that report declares, “Many ALICE households continue to face challenges from low wages, reduced work hours, depleted savings, and increasing costs.”⁴⁷ But the wages, work hours or saving levels of ALICE households are not reported or shown to be inadequate.

Another section of the report claims that although Michigan’s economy generally improved from 2009 to 2017, ALICE households did not benefit. It lays blame for this at the feet of “low wages; lack of full-time work; and income disparities by gender and sexual orientation, education, and race/ethnicity.”⁴⁸ But the report does not connect any of these issues to the ALICE households it identifies. It provides no evidence that the listed reasons are problems disproportionately affecting ALICE households, nor does it provide evidence that these households failed to financially benefit from 2009 to 2017.

Another example from the 2019 Michigan report comes in a section titled “How much does ALICE earn?” It reports that 61% of jobs in Michigan pay under \$20 per hour, 29% pay \$20 to \$40 per hour and 8% pay between \$40 and \$60 per hour. But no attempt is made to link these data points to ALICE households. As such, these statistics do not provide any information about the wages of people living in ALICE households, so the section’s heading is misleading.⁴⁹

The 2019 report includes other instances where it implies or asserts a fact or characteristic about people living in households that meet the ALICE definition that are not justified. This is not to say that no ALICE households have these characteristics, just that the report does not offer evidence that this is the case. Below is a list of some of these assertions about people in ALICE households made in the 2019 report.

- They are likely underemployed.
- They must work two jobs.
- Many are employed in the service sector.
- They are likely to work in one of the 20 most common occupations in Michigan.

- They are likely to work at relatively small firms.
- Many work in the “gig economy.”
- Demographic trends make it harder for them to afford housing costs.
- They are likely to work as health aides.
- Many are forced to work as caregivers for family members.
- They are more likely to be harmed by natural and man-made disasters.
- Water contamination and chemicals used in manufacturing “directly threaten the homes and health of ALICE families.”
- Communities rely on them to recover from disasters.
- They need “accessible, high-quality technology training throughout their lifetime” to keep a job.⁵⁰

Because the report claims that about 40% of all Michigan households meet the ALICE standard, many of these statements, of course, may be true. But the report provides no evidence to support these claims. It simply describes a variety of hardships that some people face, financial or otherwise, and assumes that these disproportionately affect households below the ALICE thresholds.

In the end, these unjustified assertions provide little value. They do not help identify ways to help employed households with limited assets and constrained incomes, which is the primary goal of the report.⁵¹

Misinterpretations and Misleading Reporting

The ALICE reports’ findings are often overstated or inaccurately portrayed by politicians, the media and even United Way itself.

One common mistake made in reporting on the ALICE findings is to confuse households with individuals. For instance, the 2019 ALICE report relies on household-based statistics to estimate financial struggle in the population, estimating that 43% of Michigan households, or 1.66 million household units, “could not afford basic needs such as housing, child care, food, transportation, health care, and technology in 2017.”⁵²

Media outlets and government officials regularly ignore the difference between households and individuals. For instance, Gov. Gretchen Whitmer, referencing the 2019 ALICE report in a February 2021 press release, said, “Today, 43% of Michiganders earn less than the basic cost of living.”⁵³ It might be the case that the number of individuals living in the households identified by the ALICE report represent 43% of the state’s total population, but the ALICE report does not say this. Several media outlets repeated this misstatement by the governor.⁵⁴

Other times ALICE figures get entirely misinterpreted. The Michigan Department of Labor and Economic Opportunity, for example, confuses households for individuals twice on the same

website. It says, according to the ALICE report, “1.5 million Michiganders struggle to afford the basic necessities of housing, child care, food, technology, health care and transportation.” The 1.5 million referenced is not the number of individuals, but households. Later, the department’s website says, “[T]he United Way’s ALICE Report shows that 43% or 4.3 million of working Michigan households struggle to afford the necessities.”⁵⁵ This is obviously incorrect as the total number of households in Michigan is less than four million, as noted in the ALICE report.⁵⁶

At times, the ALICE reports themselves confuse households with individuals. The 2019 version for Michigan, for example, uses these terms interchangeably in places. In one section, it describes the “more than 1,600,000 households in Michigan” as “representing 43 percent of the state’s population.”⁵⁷ Websites maintained by United Way also confuse households and individuals. One website reads, “1.66 million households — 43% of Michigan’s population — cannot afford basic household necessities.”⁵⁸

Media reports regularly assume that the ALICE methodology measures how many households in Michigan are “asset limited, income constrained, and employed.” For example, this headline assumes ALICE calculates the number of employed people who are impoverished: “Michigan’s working poor grows to 43 percent of all households.”⁵⁹ As stated, the reports does not attempt to assess what portion of ALICE households in Michigan are employed.

The survival budgets created by the ALICE report are often mischaracterized. The reports use the word “costs” to describe average spending data that their budgets attempt to estimate. For example, the 2019 report for Michigan says, “The Household Survival Budget calculates the actual costs of basic necessities,” and ALICE households earn “less than the basic cost of living for the state.”⁶⁰ A website maintained by United Way of Northern New Jersey describes it like this: “The ALICE Household Survival Budget is the bare minimum cost of household basics necessary to live and work in the modern economy.”⁶¹

As demonstrated, the threshold does not consider what goods cost, but instead represents an estimated average of the amount people typically spent on certain goods and services. Finding the amount needed to afford these items would require identifying the lowest price of these essential goods or services. The ALICE threshold does attempt to do that and, as such, its thresholds do not estimate a minimum amount needed to afford the items in the survival budget.

Seeing that the report itself confuses minimum costs with average spending levels, it should come as no surprise that media reports often describe these thresholds inaccurately. Stories referencing the ALICE report often portray the survival budgets as representing minimum prices. For example, see these headlines:

- “40 percent of Michigan households can’t cover expenses”⁶²
- “24% of Kalamazoo County households live above poverty line but below cost-of-living levels”⁶³
- “Report: 31% Of Livingston County Households Fail To Make Ends Meet”⁶⁴

- “Most Detroit Families Can’t Afford Their Basic Needs: Report”⁶⁵
- “New study reveals 40 percent of Michigan households can't afford basic needs.”⁶⁶

The content of news articles and other media reports also commonly confuse average spending levels with minimum costs. Here is just a sampling of examples:

- “The Michigan Association of United Ways in ‘ALICE in Michigan: A Financial Hardship Study’ reports that in 2017, 43 percent of Michigan households were unable to pay for necessities.”⁶⁷
- “According to the latest ALICE data, 43 percent of Michigan households don’t earn enough money to pay for those items.”⁶⁸
- “ALICE comprises households that earn more than the federal poverty level, but less than the basic cost of living, which varies across communities.”⁶⁹
- “Technically, these are individuals or families who are above 100% of currently poverty levels, but cannot afford basic living needs to survive and do not qualify for any government assistance.”⁷⁰
- “The ALICE data indicates that 40 percent of all Michigan households did not earn enough to cover basic expenses in 2018, including housing, child care, food, transportation, health care, and a basic smartphone plan.”⁷¹

Misreporting of research findings is a common problem. Statistical analyses can be complicated and difficult to describe in media outlets. But the ALICE report’s findings are consistently misreported and always in one direction: towards exaggerating the scope, detail and findings of the report. No doubt the fact the report itself and spin-off material produced by United Way frequently confuse the details of the study contribute to this problem.

Results Unsupported by Other Relevant Data

Other publicly available economic data that can help assess the financial wellbeing of typical households does not support the ALICE reports’ main finding that a large and growing portion of the population is unable to survive.

According to the reports on Michigan, the number of ALICE households increased by 13% from 2010 to 2017, rising from 26% of households to 29%.⁷² This would be remarkable, if true. That is because that period was marked by broad and steady economic growth in the state. This claim deserves scrutiny because the finding stands in contrast to most other measures of economic performance.

Michigan was not doing well economically in 2010. The state was at the tail end of a “lost decade,” which saw a 16% drop in household income, a peak unemployment rate of 14.6% with 725,000 people unemployed, and nearly two million people (20% of the state) receiving government food assistance.⁷³

But, coming out of the Great Recession, Michigan gained hundreds of thousands of jobs, saw household income growth 10.5% above inflation and ranked third nationally in per-capita real gross domestic product growth since 2009.⁷⁴ Taken together, these trends indicate general economic growth.

State income tax data also implies something similar. While income brackets are not adjusted for inflation, they can still be indicative of whether the number of people earning low incomes has changed over time. The data indicate that the number of people earning low incomes has declined. From 2010 to 2018, the number of returns filed with less than \$20,000 in adjusted gross income decreased 16.4%.⁷⁵ The number of returns filed claiming less than \$30,000 in adjusted gross income decreased 9.8%, and the number of returns filed claiming less than \$45,000 in adjusted gross income also decreased by 7.2%. If earnings did not grow for low-income households since 2010, the population the ALICE reports try to identify, the numbers should have stayed the same or increased over the period.

Other data suggest that growth also positively affected lower income households. For instance, Michigan's poverty rate increased from 2010 to 2011 but has gradually fallen since, declining from 16.8% in 2010 to 13.0% in 2019, representing 349,000 fewer people in poverty in Michigan.⁷⁶

The ALICE model, of course, tries to capture households that make more than the federal poverty threshold but still struggle to survive and finds that the portion of Michiganders this represents increased over this period. But because the model relies on hypothetical budgets based on average spending levels, increases to the number of ALICE households may actually represent overall positive economic changes.

This could happen due simply to the way the United Way report defines an ALICE household. Since these are households with income exceeding the federal poverty level but less than the hypothetical budgets constructed for the report, when a household raises its income above the federal poverty level, they likely now meet the ALICE definition. In other words, increased income for households below the federal poverty line results in more households being labeled ALICE. This would happen even if all households made real improvements to their financial situation. This suggests that the ALICE model is a poor measure for discerning trends in the number facing financial struggles.

Another reason the ALICE model could show worsening outcomes for Michigan households while the state experiences broad and sustained economic growth is by simply raising the ALICE income threshold. This has happened: the cost of "household basics" increased significantly from 2012 to 2019, according to the reports. The estimated income needed to survive increased by 27% for multiple-person households and nearly 40% for single households.⁷⁷ That means that a single adult living alone with income matching the 2012 ALICE threshold had to boost their pay by 40% over seven years in order to continue surviving.

The findings of the ALICE reports generally run counter to trends that can be seen in different data sets. Considering this on top of the serious methodological concerns laid out earlier, the

conclusions drawn from these reports are suspect and unlikely to provide an accurate reflection of economic trends.

ALICE in Historical Perspective

An implication of the ALICE reports is that it is harder to make it financially today than it used to be. As the Michigan United Way puts it in the latest report, the findings show an “increased cost of living” and “low wages, reduced work hours, and depleted savings.”⁷⁸ This is counter to the bulk of the evidence suggesting that, on average, households are wealthier than they used to be, and that lower income households benefit more from government transfer payments than they had previously.

The latest ALICE report for Michigan says a family household needs to earn more than \$64,116 per year to meet the survival threshold. It says 1.5 million households, 38% of those in the state, do not.⁷⁹ If essential goods are becoming more difficult to afford, spending on these items would consume a larger portion of households’ budgets over time. But just the opposite has happened.

While spending on housing increased by 4% for middle-income households and 5.5% for low-income households since the early 1980s, this cost as a percentage of the average household budget has been relatively stable.⁸⁰ It was 30.4% in 1984 and 32.8% in 2019.⁸¹ Some of that higher cost has been driven by the fact that the average home size has substantially increased: the median home built today is nearly 1,000 square feet larger (2,491 square feet) than homes built in the early 1970s (1,525 square feet), despite smaller family sizes.⁸²

Even while the number of cars per household has gone from 1.0 to 1.6 since the 1980s, and though vehicles are safer, more reliable and more fuel efficient, transportation spending has declined by 1% for middle-income families and 3% for low-income families since 1984.⁸³ In other words, households today spend less on transportation than they used to but have more and better vehicles, on average.

Spending on food has been on the decline for decades, shrinking from 17.5% in 1984 to 16.0% in 1998 to 12.9% in 2019.⁸⁴ And an inflation adjustment to the cost of food back in 1913 shows most common items cost far less today. Bread is a little more expensive, on average, but staples like flour, meat, milk, eggs, sugar and more cost significantly less than they used to.⁸⁵

A Brookings Institution analysis says health care costs have increased by 2-3% of the budget for low and middle-income households from 1984 to 2014.⁸⁶ Another analysis from Dartmouth College says the percentage of household income spent on health care has remained constant since 1972, because employers and the government are picking up more of the costs.⁸⁷

Child care costs have increased by nearly 49% in real dollars since the early 1990s, according to the Bureau of Labor Statistics, but as a share of family income, there has not been much of an increase. For low-income families, the monthly cost of childcare increased only 3.3% from 1990 to 2011 and, as a share of family income, it has increased from 16.5% to 17.4%.⁸⁸ Even if households are forced to spend more on health care and child care than they used to, these

increases would not have a large overall effect on the typical household budget, especially considering reduced costs in transportation and food.

The long-term trends show that, today, the average household earns more money, spends a smaller share on necessities and gets a better bang for their buck from that spending. Using measurements based on average spending results in a sizable portion of the population always appearing to not earn enough income to make ends meet. But average consumer spending is a poor indicator of relative poverty levels as it can mask reductions in the minimum costs of essential goods — and improvements in the quality of those goods — that occur over time.

Conclusion

Much of this analysis focused on methodology of United Way's ALICE report, and there's reason enough to doubt the veracity of its claims based on the limits of that methodology. But stepping back and viewing these claims from a broader perspective also highlights why they are likely exaggerated.

For instance, if the ALICE household survival budget is accurate, 29% of Michiganders live above the poverty line but are barely able to feed, house and care for themselves and their families. If that's true, than what does that say about the hundreds of thousands of households living below the poverty line in Michigan? If the ALICE report is correct and following its logic, these households are nowhere near able to afford the basic necessities of life and widespread misery, starvation and death would be common among these households. While there's no doubt that households with low incomes often struggle financially, it is not the case that most of them are starving to death.

That said, this critique is not meant to downplay the financial struggles many Michigan families and individuals face. These are real and we don't deny them. But if policymakers, communities and individuals are going to address these issues, we should attempt to accurately measure what the actual needs are. The ALICE report, while claiming to do so, fails on this account.

It may seem harmless to exaggerate the level of poverty in a state. After all, it could be argued it brings more attention to a serious concern. But complicated problems like poverty require precise and targeted treatments. With its miscalculated methodology, misconstrued assumptions and mischaracterized findings, the ALICE report does not help identify the populations in Michigan that are struggling financially and what policymakers might be able to do to alleviate the problem. In fact, it takes the focus off of those who truly need help, an unfortunate consequence of a poorly designed study.

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Jarrett Skorup is the director of marketing and communications at the Mackinac Center for Public Policy. In this role, he is in charge of marketing efforts, media strategy, and overseeing policy campaigns and objectives. He has worked in a variety of roles at the center since 2009.



James M. Hohman is the director of fiscal policy at the Mackinac Center for Public Policy. He holds a degree in economics from Northwood University in Midland, Mich.



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