



The Province of Prince Edward Island

# How is Poverty Measured?

Poverty Reduction Action Plan Backgrounder

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# How is Poverty Measured?

## SUMMARY

There is no accepted measure of poverty in Canada. Instead, the measures of low income, need, and deprivation are used. None are perfect, but together they paint a picture.

Historically, most measures have focused on **incomes**. This is not a complete approach as it does not take account of the fact that living costs vary widely depending on family situation, health, home ownership, access to in-kind supports, and many other factors. However, these measures do provide a way to track levels over time and to compare Prince Edward Island's rates to other provinces and regions. The main approaches used are:

- the [Low-Income Cut-Offs \(LICO\)](#) compares income to a preset low income line;
- the [Low-Income Measure \(LIM\)](#) compares Islanders' income to that of other Canadians; and
- the [Market Basket Measure \(MBM\)](#) compares income to what is needed for a reasonable standard of living.

Several measures focus on **access to the necessities of life**. These include measures of food insecurity, core housing need, and the share of income expended on basic health care needs such as pharmaceuticals.

In recent years, concepts of poverty have expanded beyond access to the necessities of life to include the **capacity to participate fully in society** – and as a citizen -- and to **have quality of life**. An example of a measure using this approach is the Ontario Deprivation Index.

Descriptions of the measures can be accessed via the links above. The more specialized measures such as food insecurity, core housing need, and deprivation are discussed in the backgrounders on food, housing, and inclusion, respectively.

## LOW-INCOME CUT-OFFS (LICO)

LICO is based on a set of income lines developed in 1976 and updated in 1992. It is supposed to be the level at which a household must spend 20% more than the Canadian average on necessities.

- LICO lines are set for three sizes of community, and for various household sizes.
- The LICO lines are set well below the other measures discussed here, especially in rural areas and small cities. As a result, they show lower rates of low income than other measures.
- LICO is useful to measure severe low income and to track trends over a long time.
- The LICO After Tax (LICO-AT) is used in the backgrounder on income trends, as it more accurately captures the income available to individuals and families than the LICO Before Tax.

LICO-AT levels for Prince Edward Island in 2017 by community size and some common household sizes are set out in the following table (households below these levels are "Below LICO-AT").



<b>Levels for the Low Income Cut-Offs After Tax (LICO-AT), 2017</b>			
	<b>Charlottetown (30-100,000)</b>	<b>Summerside (10 – 30,000)</b>	<b>Rural PEI (Less than 10,000)</b>
One person	\$17,536	\$15,719	\$13,735
Two people (e.g., couple, lone parent + child)	\$21,344	\$19,133	\$16,718
Three people (e.g. couple + child, lone parent + two children)	\$26,577	\$23,823	\$20,817
Four people (e.g., couple + two children, lone parent + three children)	\$33,157	\$29,722	\$25,970

*Low income cut-offs (LICOs) before and after tax by community size and family size*  
 Statistics Canada, Table 11-10-0241-01 (formerly CANSIM 206-0094) Accessed March 8, 2019

## **LOW-INCOME MEASURE (LIM)**

The LIM is set at half the median Canadian income.

- This rate is the same across Canada and does not vary by community size.
- However, it is adjusted to take account of the fact that per-person costs are lower in larger households.
- LIM rates tend to be higher among groups on fixed incomes such as seniors.
- As with LICO, the After-Tax LIM levels will be used in the backgrounders.

LIM-AT levels in 2017 by household sizes are set out below. Households below these levels are “Below LIM”.

- One person: \$23,513
- Two person: \$33,252
- Three person: \$40,726
- Four person: \$47,026
- Five person: \$52,577
- Six person: \$57,595
- Seven person: \$62,210

*Low income measure (LIM) thresholds by income source and household size*  
 Statistics Canada, Table 11-10-0232-01 (formerly CANSIM 206-0091) Accessed March 8, 2019



## MARKET BASKET MEASURE (MBM)

The MBM is based on the income that is needed for a family of four to have a modest but reasonable standard of living.

- It is important to note that the MBM uses disposable income, which is defined differently from the two measures described above. To arrive at disposable income, the MBM starts with after-tax income and then subtracts certain non-discretionary expenses, including payroll deductions, child support and out-of-pocket child care spending, and medically necessary non-insured spending such as drugs and glasses. This means that families would need an income higher than that shown in the MBM levels to cover their full living expenses.
- The MBM takes the different cost of living into account, in different provinces and various sizes of community. In all, there are MBM rates customized to 50 different regions and communities in Canada. In PEI, there are separate rates for Charlottetown, Summerside, and rural Prince Edward Island.
- The MBM ‘basket’ includes amounts for food, clothing, shelter, transportation, and other needs.
- The basket is updated regularly to take account of changing lifestyles and local costs. For example, the food basket is regularly revised to take account of changing food tastes, and the ‘other’ basket is updated to take account of new products and technologies.
- As well, MBM is regularly adjusted to take account of inflation, at local rates.
- MBM was created in the early 2000s and is becoming more widely used.
- MBM is valuable because it relates income to what people need to have an adequate life and because it reflects local costs of living.

As noted above, the basic MBM levels are designed around a reference family of four, with two parents and two children. The components of MBM in Prince Edward Island by community size are set out below, for 2017 the most recent data available. As shown, shelter and transportation vary by community size, while the food, clothing, and the ‘other’ categories are the same across Prince Edward Island. Households below these levels are “Below MBM.” In this approach, Charlottetown is shown as having the lowest costs for the basket of goods, with the savings in the transportation category due to availability of public transit more than offsetting the higher cost of housing. Summerside’s level is the highest, while rural areas fall in the middle. The total thresholds in 2017 were lower than in 2015 and 2016 for the two cities, and slightly lower for the rural areas, with 2017 featuring lower costs for the food and ‘other’ categories, offset somewhat by increases in the transportation category.

<b>Components of the Market Basket Measure (MBM), Family of Four, 2017</b>			
	<b>Charlottetown (30-100,000)</b>	<b>Summerside (10-30,000)</b>	<b>Rural PEI (Less than 10,000)</b>
Food	\$12,531	\$12,531	\$12,531
Shelter	\$9,513	\$8,611	\$7,773
Clothing	\$2,111	\$2,111	\$2,111
Transportation	\$2,416	\$4,985	\$4,985
All other needs	\$11,035	\$11,035	\$11,035
<b>Total</b>	<b>\$37,606</b>	<b>\$39,273</b>	<b>\$38,435</b>

*Market Basket Measure (MBM) thresholds for the reference family by region, component and base year*

Statistics Canada Table 11-10-0066-01. Accessed March 8, 2019.



## CONCLUSION

Although the above approaches do provide perspectives on how to measure poverty in Canada, they have been criticized as being confusing and inconsistent. For example, low income for a family of four in 2017 ranges from a low of \$25,970 for LICO-AT in rural Prince Edward Island, to a range of \$37,606 to \$39,273 for the MBM, to a high of \$47,026 for the LIM-AT across PEI.

It is important to keep the advantages and limitations of each measure in mind, and use them as effectively as possible to paint a composite picture of low income in Prince Edward Island over time.

A fuller description is available in a Statistics Canada paper, *Low Income Lines: What they are and how they are created*, Catalogue No. 75F0002M-002, July 2016.