

Behind the Numbers takes a look at specific measures or indicators to provide a better understanding of what the data for the indicators mean, how data are used and where you can get them.

Behind the Numbers Income

Census income measures

While Webster defines income as “a gain or recurrent benefit usually measured in money that derives from capital or labor,” the U.S. Census Bureau provides much more detail. The Census defines “total income” as the sum of the amounts reported separately for the following eight types of income: wage or salary; net self-employment; interest, dividends, or net rental or royalties or income from estates and trusts; Social Security or railroad retirement; Supplemental Security Income (SSI); public assistance or welfare payments; retirement, survivor, or disability pensions; and all other income¹.

Receipts from the following sources are not included as income: capital gains, money received from the sale of property (unless the recipient was engaged in the business of selling such property); the value of income “in kind” from food stamps, public housing subsidies, medical care, employer contributions for individuals, etc.; withdrawal of bank deposits; money borrowed; tax refunds; exchange of money between relatives living in the same household; and gifts and lump-sum inheritances, insurance payments, and other types of lump-sum receipts.

All sources of income can be combined into two major types:

- **Earned income** is the sum of wages and salaries and net income from self-employment; and
- **Unearned income** is the sum of all sources of all income except wages and salaries and income from self-employment.

What is income?

Gains made from earned and unearned sources. Typically these gains are measured by money.

What does it measure?

The amount of gains, or money, generated by a community, household, or individual.

What does it tell us?

The relative wealth of a community or household.

What doesn't it tell us?

The absolute wealth of a community or household. It is not a measure of total assets.

How is the data collected?

Most income data is self-reported by the individual or household. Secondary sources of income data include tax returns and wage and salary reports. In most cases, income data is aggregated and reported as either a median or mean or per capita. It is sometime reported in ranges.

Where can I get it?

U.S. Census Bureau, U.S. Bureau of Economic Analysis, Pennsylvania Department of Labor and Industry, Pennsylvania Department of Revenue, and others.

When to use it:

To compare the relative wealth of communities or households.

To measure the change in relative economic gain over time.

To identify segments of the population at risk or in financial distress.

Income can be measured in various ways by various sources. The Census Bureau measures household, family, and individual income.

- **Individual income** is the sum of the eight types of income mentioned above for each person 15 years old and older.
- **Family income** is the income of the householder and all other individuals 15 years old and older in the household who are related to the householder.
- **Household income** is the income of the householder and all other

individuals 15 years old and older in the household, whether or not they are related to the householder. Because many households consist of only one person, average household income is usually less than average family income.

Using the data

To compare income across time or place, measures like rates or averages are usually used. For example, it is not meaningful to compare the total income in two areas as one area may have many more people

¹ All other income includes unemployment compensation, Veterans' Administration (VA) payments, alimony and child support, contributions received periodically from people not living in the household, military family allotments, and other kinds of periodic income other than earnings.

than the other. The following are some common measures that account for these factors.

- **Mean income** is the average, or the amount obtained by dividing the aggregate income of a particular statistical universe by the number of units in that universe. Thus, mean household income is obtained by dividing total household income by the total number of households. For households and families, the mean income is based on the total number of households and families, including those with no income. The mean income for individuals is based on individuals 15 years old and older with income.

- **Median income** is the middle value in a distribution and is calculated by dividing the income distribution into two equal parts: one-half of the cases falling below the median income and one-half above the median. For households and families, the median income is based on the distribution of the total number of households and families, including those with no income. The median income for individuals is based on individuals 15 years old and older with income.

The median, which is not affected by extreme values, is a better measure than the mean when the population base is small.

- **Per capita income** is the mean income computed for every man, woman and child in a particular group. It is derived by dividing the total income of a particular group by the total population in that group.

Some points to consider

In comparing income data over time, it should be noted that an increase or decrease in money income does not necessarily represent a comparable change in real income, unless adjustments for changes in prices are made.

- **Income distribution** – While the Census Bureau does not have an official definition of upper, middle,

or lower class, it does derive several measures related to the distribution of income and income inequality. Traditionally, the Census Bureau uses two of the more common measures of income inequality.

- **Shares of aggregate income received by households** (or other income recipient units, such as families) - In the shares approach, households are ranked from lowest to highest on the basis of income and then divided into equal population groups, typically

quintiles. To derive shares, the aggregate income of each group is divided by the overall aggregate income.

- **Gini index** (or coefficient or ratio or number) - The Gini index summarizes the dispersion of the income shares across the whole income distribution. The Gini index ranges from zero (indicating perfect equality where everyone receives an equal share) to one, perfect inequality where all the income is received by only one recipient.

Other federal measures of income

For several reasons, the income data shown in census tabulations are not directly comparable with those obtained from statistical summaries of income tax returns. Income, as defined for federal tax purposes, differs somewhat from the Census Bureau concept. Income tax statistics exclude people with small amounts of income and include net capital gains. Furthermore, the income reporting unit, a family or a person, is not consistent since members of a family may file separately or jointly, depending on their situation.

The earnings data shown in census tabulations are not directly comparable with earnings records of the Social Security Administration, in part because census data are obtained from household questionnaires, while Social Security Administration data are based on employers' reports and the federal income tax returns of self-employed people.

The Bureau of Economic Analysis (BEA) publishes annual data on aggregate and per-capita personal income received by the population for states, metropolitan areas, and selected counties. Aggregate income estimates based on the income statistics shown in census products usually would be less than those shown in the BEA income series for several reasons. The Census Bureau data are obtained directly from households; whereas, the BEA income series is estimated largely on the basis of data from administrative records of business and governmental sources. Moreover, the definitions of income are different. The BEA income series includes some items not included in the income data shown in census publications, such as income "in kind," income received by nonprofit institutions, the value of services of banks and other financial intermediaries rendered to people without the assessment of specific charges, and medicare payments. On the other hand, the census income data include contributions for support received from people not residing in the same household if the income is received regularly.