

## Sources of Rural Household Income Vary by Demographic Groups

*The differences in the sources from which households receive cash income and other in-kind benefits are especially striking when rural households are compared by racial and ethnic groups. The share of rural household income from earnings ranges from about 72 percent for Whites and Blacks to 80 percent for Hispanics. Capital returns account for 6 percent of Whites' income, but only 1.3 percent of Blacks' and Hispanics' income. Social insurance programs contribute 18 percent for Whites, 13 percent for Blacks, and 10.4 percent for Hispanics. The share of income from government assistance programs range from 3.3 percent for Whites to 8 percent for Hispanics and 12 percent for Blacks.*

Total income available to a household derives from a number of cash and in-kind sources. The composition of household income and the relative importance of different income sources among rural and urban households and among rural racial and ethnic groups provide a way to assess the well-being of these household groups. Household income is grouped into four categories for this analysis: earnings from wage and salary jobs and self-employment; capital returns from dividends, interest, and rents; income from social insurance programs, such as Social Security, pension or retirement benefits, and the fungible value of Medicare; and income from government assistance programs, such as unemployment insurance or the market value of food stamps (see "Definitions").

Rural household income averaged (mean) \$35,139 in 1996, 25 percent less than urban household income (\$46,984). Rural and urban households are similar in the composition of income and shares of income by source. Differences arise when comparing rural households by racial and ethnic groups. Rural White households rely more on social insurance programs and capital returns and less on government assistance than do rural Black and Hispanic households.

### Minorities Rely More Heavily on Transfer Income than Whites

The share of rural household income from earnings ranges from about 72 percent for Whites and Blacks to 80 percent for Hispanics (fig. 1). In contrast, capital returns represents 6 percent of Whites' income, but only 1.4 percent of Blacks' income, and 1.3 percent of Hispanics' income. Social insurance programs contribute 18 percent for Whites, 13 percent for Blacks, and 10.4 percent for Hispanics. Income shares for government assistance programs range from 3.3 percent for Whites to 8 percent for Hispanics and 12 percent for Blacks.

The composition of government assistance programs varies between rural and urban areas and among racial and ethnic groups within rural areas (fig. 2). Aid to Families with Dependent Children (AFDC) plus general assistance, along with other assistance for education, housing, and energy add up to a smaller share of government assistance programs for rural than urban households (36 versus 24 percent). Other programs take on a larger share for rural households, including the Earned Income Tax Credit (by 30 percent), food stamps and the school lunch program (by 18 percent), and Medicaid (by 11 percent). The rural-urban difference in shares of household income for the other two programs, Unemployment Insurance and Supplemental Security Income (SSI), are less than 10 percent.

Average household income from government programs varies considerably among racial and ethnic groups. The most notable differences occur with SSI, food stamps and the school lunch program, and the Earned Income Tax Credit (fig. 2). For rural Blacks, the average household benefits from SSI are nearly four times that of rural Whites and rural Hispanics. This is due to the importance of SSI to the rural elderly Black households.

Rural Black households, on average, receive 4.5 times the amount of food stamp benefits received by rural White households. Rural Hispanics receive 2.8 times that of rural White households. The larger amount for rural Hispanics is consistent with the difference in poverty rates, which for rural Blacks and Hispanics is nearly 3 times that of rural Whites (see the article on rural poverty rates, p. 81). Why rural Black households receive a disproportionate amount of support from food stamps and the school lunch program is partially explained by a larger participation rate for the Food Stamp program among those eligible. Other possible explanations are household size and income levels when calculating food stamp benefits for those who participate.

For the Earned Income Tax Credit, the average rural Black household receives 3 times the amount received by rural White households. Rural Hispanics receive 3.4 times that of rural White households. For AFDC and general assistance, rural Black households average 2.3

**Definitions: Households and Their Sources of Income**

Data on households and their sources of income are from the March 1997 Current Population Survey (CPS) and refer to income in 1996. For our analysis, we distinguish household units which are economically independent even if they live at the same address, so unrelated families and unrelated individuals are treated as separate household units. Households are defined as (1) all persons living in a housing unit who are related by blood, marriage, adoption, or other legal arrangements; or (2) a person living alone or sharing a household with others, or living as a roomer in a private home or lodging house or in permanent living quarters in a hotel or motel, but who is financially independent.

We also make several exceptions by omitting certain households that are included in the CPS. First, we exclude households whose head is in the military but they live off-base, whereas CPS only excludes households whose head is in the military and they live on-base. Second, we exclude households whose self-employed income leads to a large negative income for the year.

For the sources of household income, the imputed value of in-kind government transfers are included along with cash or money income. We group the sources of household income into four categories for our analysis: “earnings” from labor as hired workers and self-employed; “capital returns” from dividends, interest, and rents; “social insurance programs” from workers compensation, Social Security, veterans’ payments, survivor benefits, disability benefits, pension or retirement income, and the fungible value of Medicare; and “government assistance programs” primarily from means-tested transfer programs (fig. A).

Government assistance programs consist of seven program categories: unemployment insurance, Supplemental Security Income (SSI), Aid to Families with Dependent Children (AFDC) and general assistance (public assistance), Earned Income Tax Credit, the fungible value of Medicaid, the market value of food stamps and the school lunch program, and “other assistance” for education, housing, and energy (fig. B).

“Inter-household transfers” from alimony, child support, and financial assistance as well as the CPS category of “other income” are excluded in our analysis, except for the inter-household transfers in the discussion of rural poor single adults with children. On average, these two income sources amount to only 0.66 percent and 0.18 percent of household income. For rural poor single adults with children, inter-household transfers account for 6 percent of income.

Government transfer programs are divided into two categories: “government assistance programs” and “social insurance programs.” (This treatment of government transfer programs using data from the CPS differs from the treatment of government programs in a previous article on rural transfer payments which uses the Bureau of Economic Analysis (BEA) transfers data.)

To compare the importance of different income sources among household groups, we use mean income by source for each household group. Mean income by source is the amount obtained by dividing the income from a source for a group by the number of household units in that group, even when some household units in a group did not receive income from a particular source.

Figure A  
**Sources of rural household income, 1996**  
*Earnings represent the overwhelming majority of rural household income*

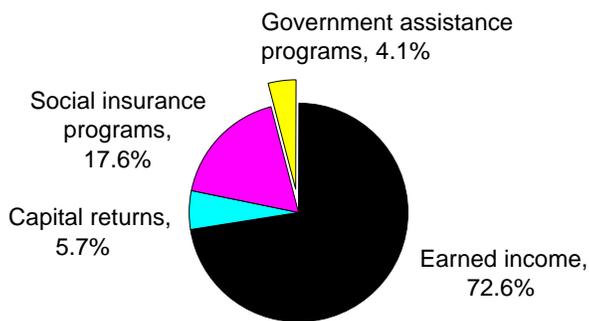
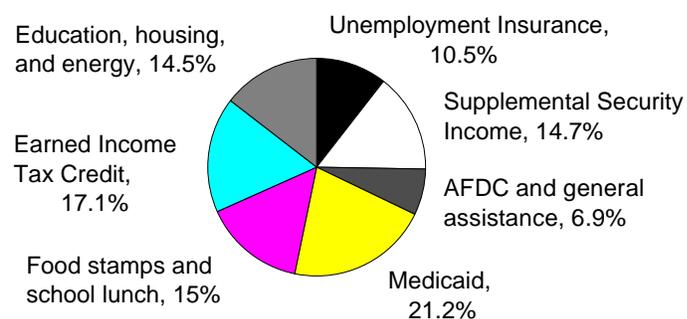


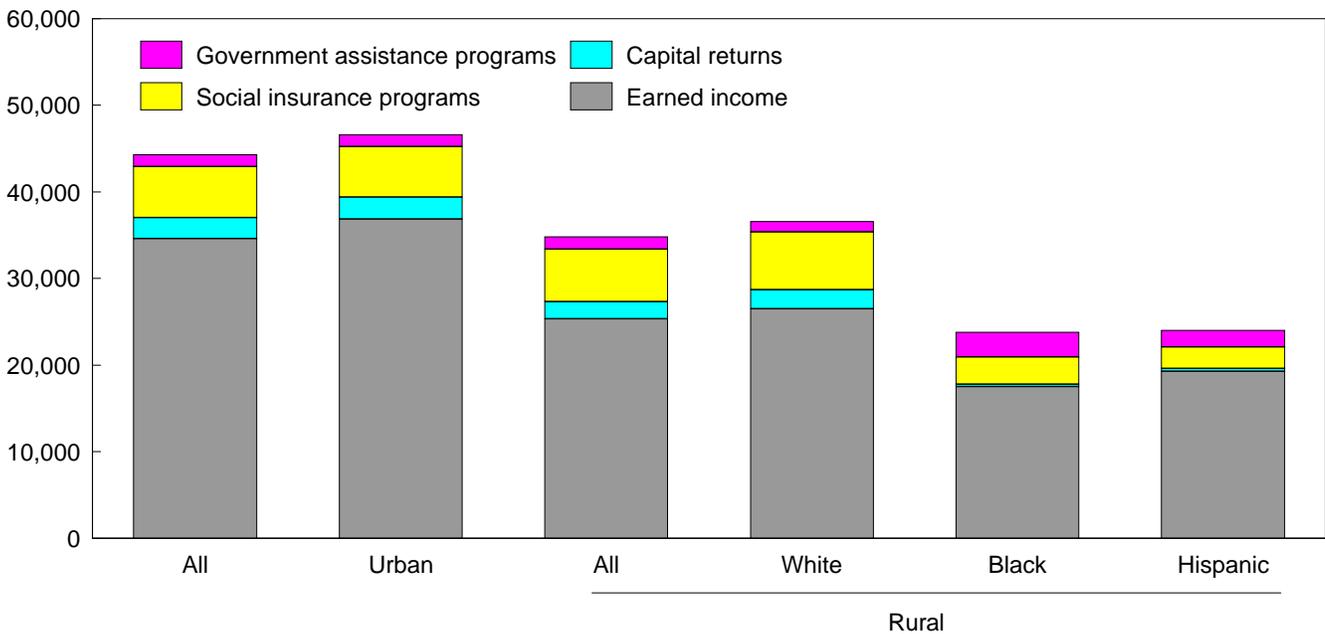
Figure B  
**Government assistance programs to rural households**  
*Government assistance programs are distributed fairly evenly among different programs*



Source: Both figures A and B prepared by ERS using data from the March 1997 Current Population Survey.

Figure 1  
**Sources of household income, by residence and racial and ethnic groups, 1996**  
*Earned income is considerably lower for minorities*

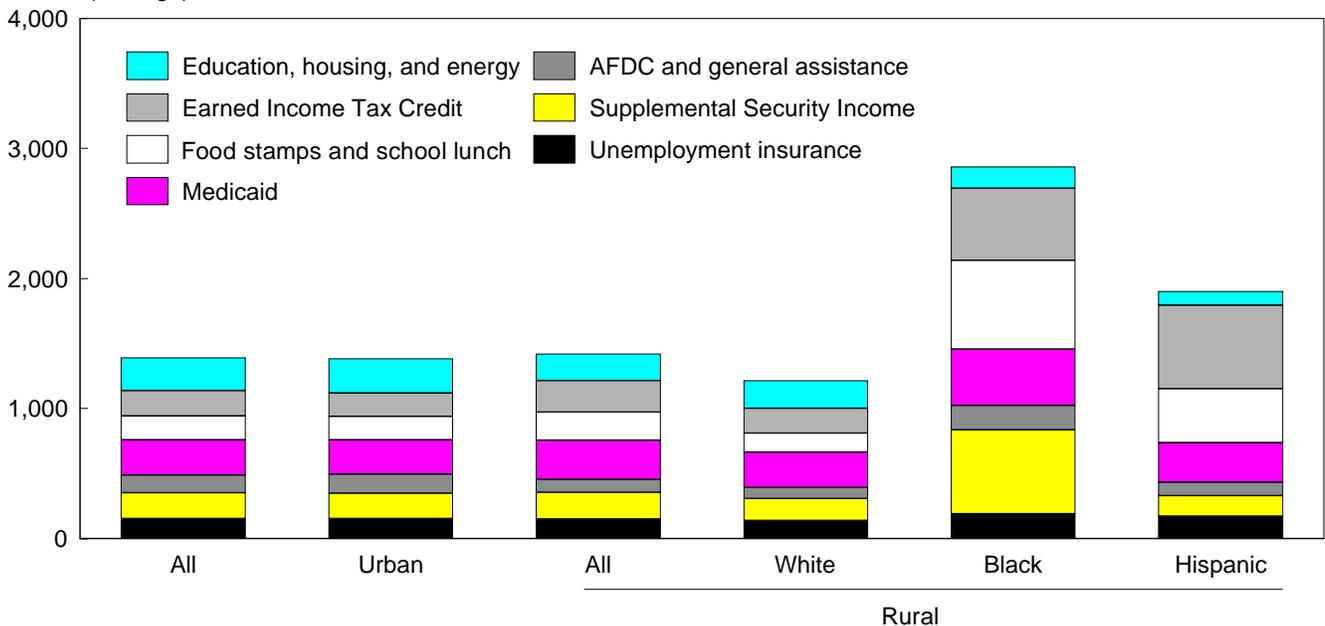
Dollars (average)



Source: Prepared by ERS using data from the March 1997 Current Population Survey.

Figure 2  
**Income from government assistance programs, by residence and racial and ethnic groups, 1996**  
*Transfer income is most important to Blacks and Hispanics*

Dollars (average)



Source: Prepared by ERS using data from the March 1997 Current Population Survey.

times the amount received by rural White households. Rural Hispanics receive only 1.2 times that of rural White households. The difference for rural Black and Hispanic households is smaller than expected due to differences in poverty rates, and factors other than income may influence the differentials in AFDC and general assistance payments. One reason is that rural Blacks live in States that pay low AFDC benefits, which is less true of rural Hispanics. Other reasons may be related to differences in participation rates for those eligible, and household size.

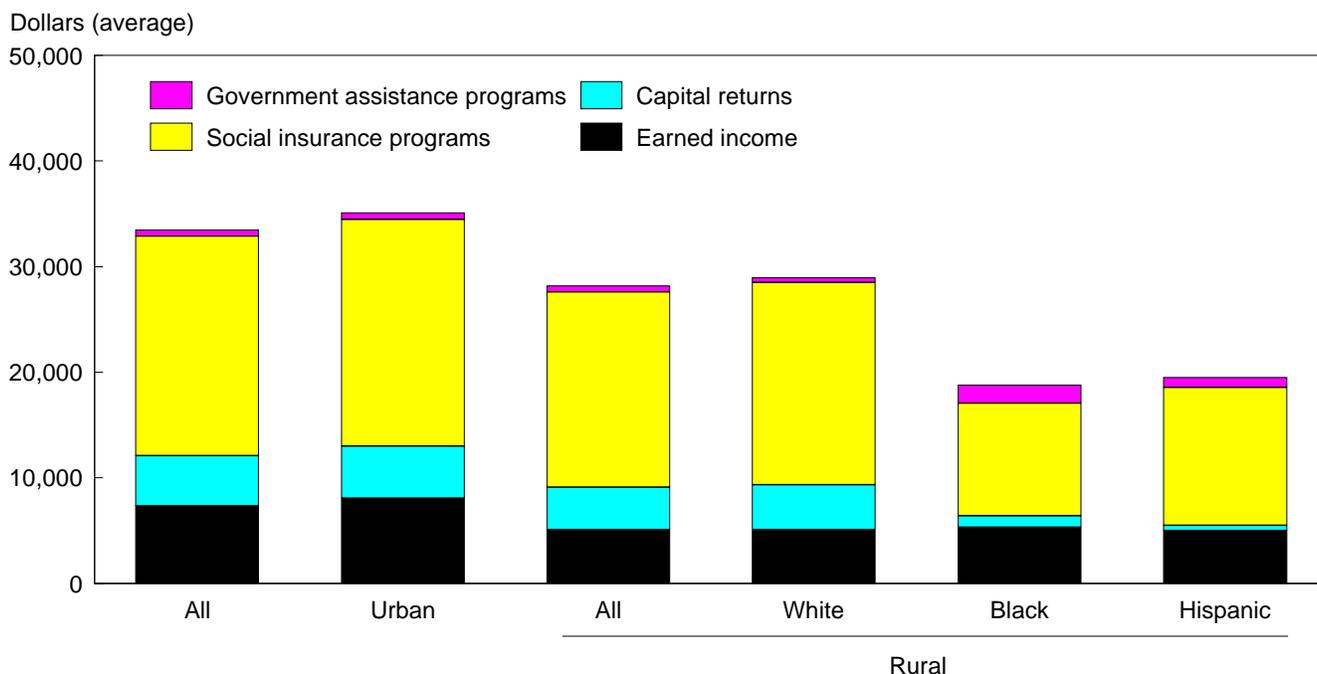
**Rural Elderly Households Rely on Social Security and Medicare**

Elderly households rely on a different mix of income sources than the younger population (fig. 3). Social insurance programs account for 66 percent of the rural elderly household income. This is slightly higher than the 61 percent for urban elderly households. Rural Black elderly households receive only 57 percent of their income from these sources, making up the difference through earnings.

Overall, rural and urban elderly households receive an average of 22 percent of their income from earnings, one-third of the earnings share for all rural households. The range of earnings' shares among rural elderly racial and ethnic groups has its low of 17.5 percent for White households and its high of 28.3 percent for Black households. For rural elderly Blacks, a greater share of their income comes from earnings because they receive less from Social Security.

Capital returns for rural elderly households amount to 14.2 percent of total income, which is greater than the 5.7 percent for all rural households. Still, rural Black elderly households only receive 5.8 percent of their income from capital returns, while rural Hispanic elderly households receive even less at 2.4 percent. Government assistance programs account for only 2 percent of either all elderly household or all rural elderly household income. Differences exist among the rural ethnic groups. White rural elderly households receive 1.5 percent from government assistance programs, while Blacks receive 9 per-

Figure 3  
**Rural elderly household income, by residence and racial and ethnic groups, 1996**  
*Social insurance programs and Medicare are the main sources of income*



Source: Prepared by ERS using data from the March 1997 Current Population Survey.

cent and Hispanics receive 5 percent. The large share for rural Black elderly households is due primarily to large SSI payments. Rural Blacks receive lower Social Security payments, which results in a greater dependence on SSI. Larger than average Medicaid and food stamp payments also contribute to the larger share for government assistance programs to rural Black elderly households.

### Poor Single Adult Households with Children Receive Less Income from Earnings

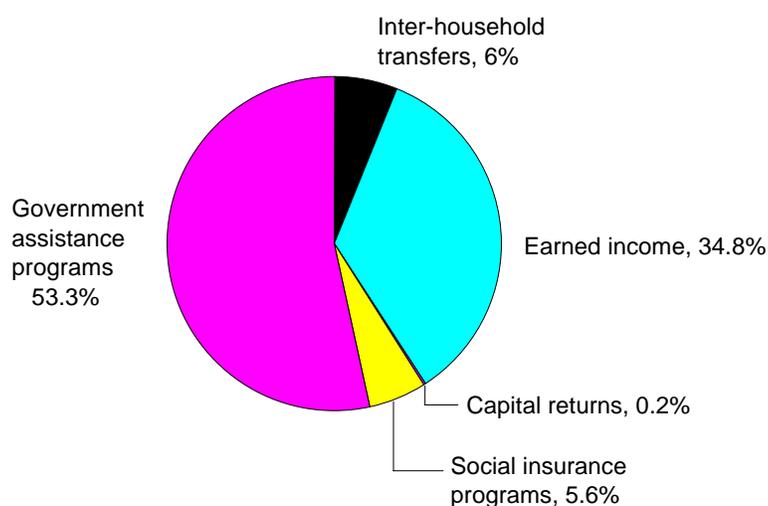
Forty-three percent of single adult households with children in rural areas have incomes below the poverty level, compared with 37 percent in urban areas. Earnings for these rural poor households amount to less than 35 percent of total income (fig. 4). (This is less than half the share for all rural households (see fig. 1). These households rely more on government assistance programs, which account for 53 percent of total income, compared with 11 percent for nonpoor households. Government assistance to rural poor single adult households with children come primarily from AFDC and general assistance (22.3 percent), food stamps and the school lunch program (33.5 percent), and Earned Income Tax Credit (20.7 percent) (fig. 5). Inter-household transfers—primarily alimony and child support—are important for this household group. They account for 6 percent of income, compared with less than 1 percent for all households. The composition of income for these households is essentially the same for comparable households in urban areas, though earnings for the urban households are slightly less at 33 percent of total income.

With the introduction of welfare-to-work incentives and other changes in welfare programs under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, changes in the composition of household income will require close monitoring over the next few years, particularly for the poor single adult households with children in rural areas. [Kenneth Hanson, 202-694-5427, e-mail khanson@econ.ag.gov]

Figure 4

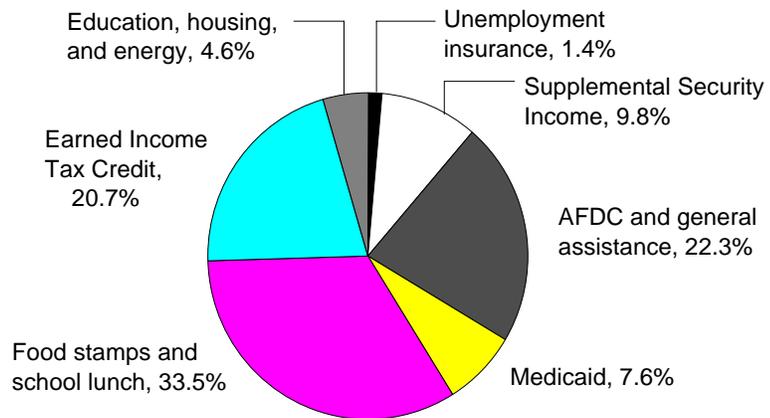
### Income sources for rural poor single adults with children, 1996

*Earned income is second in importance to other government transfers*



Source: Prepared by ERS using data from the March 1997 Current Population Survey.

Figure 5  
**Other government transfers to rural poor single adults with children, 1996**  
*Food assistance is important*



Source: Prepared by ERS using data from the March 1997 Current Population Survey.