The Impact of Wage Equality on Sexual Orientation Poverty Gaps

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Introduction and Summary

A growing body of research suggests that lesbian, gay, bisexual, and transgender (LGBT) people are more likely to be poor than are heterosexual people with the same characteristics.¹ These studies show that lesbian and bisexual women are especially vulnerable to poverty, as are LGB people of color. One reason for these differences could be that women and people of color face wage gaps when compared to men or to white people. Lower wages mean lower incomes, increasing the risk of a household falling below the federal poverty line, which is based on income.

This report uses data on same-sex couples in the 2012 American Community Survey to assess the impact on LGB and heterosexual poverty rates of several types of hypothetical changes: one that reduces the gender wage gap between men and women, one that reduces the wage gaps for people of color (the gap between white and black workers and the gap between Hispanic and non-Hispanic workers), and one that reduces the wage gap for gay and bisexual men compared with heterosexual men. These changes could come from new policies designed to address wage gaps, such as reductions in the gender wage gap resulting from a policy of paid family leave,² or through more stringent enforcement of new or existing nondiscrimination laws.

Although we typically observe higher poverty rates for lesbian couples than married heterosexual couples, individual lesbians earn more than similar heterosexual women on average.³ However, most lesbians still earn less than either gay or

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1 See Albelda et al. (2009); Badgett et al. (2013); Prokos & Keene (2010). Because we do not have data on transgender people, we cannot conduct the same exercise for that group, so here we use “LGB” instead of “LGBT.”

2 Misra et al. (2007) show that countries with paid family leave laws tend to have lower gender wage gaps than other countries, holding other factors constant.

3 See Klawitter (2015).
heterosexual men. As a result, a couple made up of two lesbian earners usually has less household income than a heterosexual couple because of the gender wage gap, so lesbian couples and households are more likely to be in poverty than heterosexual married couples. In this report, our adjustment to eliminate the gender wage gap should account for this effect.

Given the lesbian wage “premium”, we also consider the impact of another source of wage differences: giving heterosexual women the same wages earned by lesbians. At least some of the lesbian advantage results from lesbians’ different decisions about working in the paid labor force, perhaps because lesbians do not face the same gender constraints that result from being in relationships with men.4 Lesbians work more hours per week and more weeks per year than heterosexual women, and eventually that time would add up to more labor market experience for lesbians. It is also possible that lesbians make other kinds of labor market decisions that tend to increase their wages, such as getting more training or going into male-dominated occupations. These labor market differences between lesbians and straight women might be partly related to the fact that lesbians are less likely to have children than straight women. The different decisions made by lesbians give them an advantage from which heterosexual women could also gain if they made similar decisions.

After we simulate the changes in earnings, we then calculate the impact of the higher simulated incomes for all women, people of color, and heterosexual women on poverty rates and on poverty gaps between people in same-sex couples and people in different-sex couples. We use data from the 2012 American Community Survey for the exercise.

Overall, we find that eliminating wage gaps reduces poverty rates for people in same-sex couples and in different-sex couples in the following ways:

- With the elimination of a gender wage gap, the poverty rate for women in same-sex couples would fall from 7.9% to 5.4%.
- Eliminating the racial wage gap would reduce the poverty rate for African American men in same-sex couples from 14.5% to 10.9%, and would reduce the poverty rate for African American women in same-sex couples from 24.7% to 16.9%.
- Without a wage gap between Hispanics and non-Hispanics, the poverty rate for Hispanic men in same-sex couples would fall from 4.9% to 3.8%, and the rate for Hispanic women in same-sex couples would drop from 9.2% to 7.4%.
- If heterosexual women in couples had earnings similar to women in same-sex couples, their poverty rate would fall from 6.6% to 5.8% (for those heterosexual women in married couples, the change is from 5.8% to 5.1%, while it is from 14.5% to 12.3% for those in unmarried couples).
- Reducing the sexual orientation gap for men in same-sex couples would reduce their poverty rate from 3.3% to 2.2%.

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4 See e.g. Badgett (1995), Black et al. (2003), Antecol et al. (2008), Daneshvary et al. (2009), and Klawitter (2015).
The impact on sexual orientation poverty gaps—the difference between rates for same-sex couples and different-sex married couples—also goes down slightly in some situations. In particular, we find the following patterns:

- The poverty gap between different-sex married and same-sex female couples would disappear if women earned the same wages as comparable men earn.
- Hispanic women in same-sex couples would no longer be more likely to be in poverty than Hispanic women in different-sex married couples if Hispanics earned the same as non-Hispanics.
- African Americans in same-sex couples would still have much higher rates of poverty than heterosexual African Americans, but enforcing wage equality between black and white people would reduce poverty more for people in married different-sex couples (almost 40% for straight couples, but between 25-32% for same-sex couples.)

Looking at some simpler comparisons of poverty among all same-sex couples (5.6%) and different-sex couples (6.6%) shows that reducing the gender wage gap would have a larger impact on reductions in poverty for both kinds of couples than either reducing the racial/ethnic wage gap or the sexual orientation wage gap. Eliminating all three gaps would reduce poverty among people in all couple types by a third and would completely eliminate the gap in poverty rates between same-sex and different-sex couples.


Data and Methodology

Defining Poverty

The U.S. Census Bureau uses data from surveys of households to calculate official poverty rates. The Census Bureau compares an individual’s or family’s income to the Federal Poverty Line (FPL), which is the income threshold. The FPL takes into account the number of children under 18 and the age of the householder, and varies according to family size. In 2012, the poverty line for a single person (under 65 years old) household was $11,945, for a two-person household (with no children) was $15,374, and for a four-person household was $23,681.\(^5\)

To study the effects of greater earnings equality on poverty rates and poverty gaps across different household types, we use data from the 2012 American Community Survey. The US Census Bureau collects these nationally representative data annually via mail-in responses, CATI (computer assisted telephone interview), and CAPI (computer assisted personal interview).\(^6\) We observe the household, demographic, and earnings information for more than one million individuals in different-sex married couples, more than one hundred thousand in unmarried different-sex couples, and almost five thousand in both same-sex male and same-sex female couples.

The ACS allows us to identify people in same-sex relationships based on their household composition. The householder in each housing unit must define a relationship between him- or herself to everyone else in the household. We count a same-sex couple when the householder identifies another same-sex member of the household as his or her “unmarried partner.”\(^7\) Because of the structure of these data, we can only identify and analyze the economic situation of people in same-sex couples. To increase readability, we call people in different-sex couples “heterosexual” and people in same-sex couples “gay” or “lesbian,” although we do not know how these people identify in terms of sexual orientation.

We adjust the Census Bureau procedure to measure poverty within families so that unmarried partner couples, along with any children under 18 in their households, are also included as families. Otherwise, we follow the Census procedure for measuring


\(^6\)We used the ACS data in IPUMS (Ruggles et al. 2010).

\(^7\)Following the suggestion of Gates & Steinberger (2009), to avoid measurement error, we drop any households for which either person in the couple has an allocated status for sex, marital status, or relationship to the householder and who mailed in their responses.
poverty. A family is poor, for official statistical purposes and in this study, if their total family income is below the FPL for a family of that size. We calculate poverty rates by dividing the number of poor families by the total number of families in the sample.

**Simulating Wage Equality**

One way to think about an individual’s wages is that they are influenced by the characteristics of an individual, such as education, experience, and location, and by the economic value of each of those characteristics in the labor market. Thinking in these terms, a gender wage gap – or difference in average wages between men and women – can arise for two kinds of reasons. First, a gender wage gap can occur if men are more likely to have the valuable characteristics than women, such as experience in the labor force or a college education. Second, wages can differ for men and women if the value of those characteristics, or the monetary “returns” to the characteristics, differ by sex, such as when a college education adds more to men’s wages than it does for women. The returns to certain characteristics might be different for women as a result of discrimination, as when an employer views the value of having a college degree as being lower for women than for men.

In this study, we focus on this second reason for a wage gap. We simulate the wages and incomes that women would earn if their actual characteristics were valued in the same way that men’s characteristics are valued. In other words, we keep women’s characteristics as they are, but we simulate what their incomes would be if they got paid for those characteristics the same way that men do.

In addition to the gender gap, we also simulate the elimination of wage differentials across race, ethnicity, and sexual orientation, by giving people in the lower paid group the returns on their labor market characteristics that they would get if they were in the higher paid group. Along with the gender example in the last paragraph, we also measure the returns to characteristics for whites, and apply those same returns to the characteristics held by African Americans. We do this exercise to compare five groups in total: women and men; African Americans and whites; Hispanics and non-Hispanics; heterosexual women and lesbians; and gay men and heterosexual men. In each of these cases, the second group mentioned has higher returns to their characteristics, and we give those returns to people in the first group. After analyzing the effects of giving the lower-paid group higher returns, we also combine some of these groups to get an intersectional analysis for more specific groups. In particular, we simulate wage equality between African American women and white men, and Hispanic women and non-Hispanic men.

To perform these simulations, we first calculate the estimated impact of (or “returns to”) age, education, region of residence, metropolitan city size, working full versus
part-time, and presence of children on the hourly earnings for the higher-paid group. Thus we have the “value” of these characteristics for five groups: men, whites, non-Hispanics, lesbians, and heterosexual men. We then give those same returns to people in the lower paid group (women, African Americans, Hispanics, heterosexual women, and gay men, respectively) for the same characteristics and recalculate their wages, essentially eliminating any difference in returns to characteristics across the two groups under comparison.

Consider this example of how assigning new returns makes a difference in earnings: the average hourly wage for working women is $23.03. However, once we give women the same returns on their characteristics that men get, the average hourly wage for women rises to $29.19. A woman’s characteristics stay the same, but what she gets paid for them goes up, so her overall wage rises.

Once we have calculated the new wage for people in the disadvantaged group, we then take the incomes for both people in a couple and add them together to get household income, which we compare to the federal poverty level (FPL). If the household income is below the FPL, the household is said to be in poverty. Assigning higher returns to the characteristics of workers raises their incomes and lifts many couples out of poverty. The final step in this report is to compare the poverty rates of people in same-sex couples to those in different-sex married couples before and after our wage equality simulations.

**Gender Wage Equality Findings**

Our first set of findings takes out the effect of gender wage equality on sexual orientation poverty gaps. Because men’s incomes do not change, we only look at

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8 We use an ordinary least squares statistical model using these characteristics to predict the log of hourly wages for men (or whites or non-Hispanics or lesbians), and that procedure gives us the return to each characteristic. In this model for each higher-earning group, we use only the lowest 90% of earners to avoid having the predicted earnings for those at middle or lower income levels upwardly biased by a small number of high earners in the sample. Respondents to the ACS are not asked to report their hourly earnings, but they do provide information on their yearly earnings, weeks worked per year, and hours usually worked per year. We use this information to calculate their hourly wage. The number of weeks worked variable comes in categories, or a range (e.g. 1-13, 14-26, ..., 48-49, and 50-52); we take the mid-point of the range in our calculations.

9 We only assign these higher returns to people who were above 18 years old and working a positive number of hours at the time of the survey, and who did indeed have lower returns than the comparison group (not every woman has lower returns than the average man). By “heterosexual” we mean people in either married or unmarried different-sex couples.
couples that include women here. Figure 1 shows that if women had the same returns to their characteristics as men, poverty rates would fall for female same-sex couples and different-sex couples.

The blue bars, which are measures of actual poverty rates for couple types in 2012, show that married different-sex couples have the lowest poverty rates, followed by female same-sex couples, while unmarried different-sex couples have the highest poverty rates. The red bars show the new estimated poverty rate. After we eliminate the gender gap in returns to characteristics, the drop in the poverty rate is sizable even for different-sex couples. The poverty rate falls from 5.8% for married different-sex couples to 5.0% and from 14.5% to 11.8% for unmarried different-sex couples. Not surprisingly, the fall in poverty is more dramatic for couples with two women, from 7.9% to 5.4%, which is a drop of about one-third. Before the equality simulation, the poverty rate for female same-sex couples was significantly higher than that of different-sex couples, but wage equality between men and women would eliminate the sexual orientation poverty gap for lesbians compared to heterosexual married couples.10

Figure 1: Impact of gender wage equality on poverty rates across couple types

10 The remaining difference in rates is statistically insignificant. That means that given the fact that we are working with a sample of couples, we might expect to see a small difference in poverty rates for straight married and lesbian couples by chance, even if the actual likelihood of being poor is the same.
Racial and Ethnic Wage Equality Findings

Next we consider what would happen to sexual orientation poverty gaps between African Americans and whites, and between Hispanics and non-Hispanics, if employers valued characteristics equally for all racial and ethnic groups. More specifically, our wage simulations give African American (or Hispanic) women the wages they would earn with white women’s returns to characteristics, and African American (or Hispanic) men the wages they would earn with white men’s returns to characteristics.

African American women in same-sex couples have one of the highest poverty rates in the sample, at 24.7%. As shown in figure 2, our equal treatment simulations would reduce the poverty rate for African American women in same-sex couples to 16.9%, or by almost one-third. However, the change would benefit African Americans in different-sex couples proportionately more, so the sexual orientation poverty gap actually increases: before the change, African American gay men and lesbians were 1.8 and 3.1 times more likely to be in poverty than African Americans in different-sex married couples, respectively. Under racial wage equality, those figures jump up to having African American gay men and lesbians being 2.2 and 3.4 times more likely to be in poverty than African Americans in different-sex couples, respectively. In other words, racial wage equality would lower the poverty rates of people in married different-sex couples relatively more than it would for men and women in same-sex couples.

The impact of wage equality on poverty rates for Hispanics across couple types is quite different. Hispanics in different-sex couples are more likely to be in poverty than those in same-sex couples, whether married or not. However, similar to the racial wage equality story, Hispanics in different-sex couples would benefit much more from wage equality with non-Hispanics than would Hispanics in same-sex couples. Figure 3 shows that ethnic wage equality would reduce poverty rates for Hispanic people in married different-sex couples from 15.8% to 7.6%, and from 24.8% to 11.7% for unmarried different-sex couples (both decreases of more than 50%). For Hispanic people in same-sex couples, ethnic wage equality would decrease their poverty rates by only about 20%. The drop for Hispanic female same-sex couples is from 9.2% to 7.4%.
Figure 2: Impact of racial wage equality on African American poverty rates by couple type

![Figure 2: Impact of racial wage equality on African American poverty rates by couple type](image)

Figure 3: Impact of ethnic wage equality on Hispanic poverty rates by couple type

![Figure 3: Impact of ethnic wage equality on Hispanic poverty rates by couple type](image)

**Multidimensional Wage Equality: Gender, Racial, and Ethnic Wage Equality**

As a next step, we combine the gender and racial/ethnic portions of our analysis to consider what would happen to African American and Hispanic women’s poverty rates if they got the same returns as white and non-Hispanic men. This simulation
eliminates two kinds of inequality at once—gender plus race or ethnicity. For each black or Hispanic woman in a couple, we give her the returns of a white or non-Hispanic man, so we only change the incomes of women of color (not all women, and not all people of color). Men’s incomes in different-sex couples are not adjusted. In this framework, we see some of the biggest improvements in the economic situation of women in same-sex couple households.

Figure 4 shows that for African American women in different-sex couples, combined racial and gender wage equality would lower poverty rates by 22% for those in unmarried couples (from 20.6% to 16.1%) and by 21% for those in married couples (from 8.0% to 6.3%). At the same time, the simulation of this wage equality would drive down the poverty rate for African American lesbians even more, namely 31.6%, from 24.7% to 16.9%.

Similarly, Hispanic women in same-sex couples would benefit more from the combined gender and ethnic wage equality than Hispanic women in different-sex couples. The poverty rates for Hispanic lesbians would drop from 9.2% to 7.2%, a 22% drop. The fall for both groups of Hispanic women in different-sex couples is a drop of only about 15%.
Earnings Equality Between Women in Same-Sex and Different-Sex Couples

Given that lesbians earn more than straight women as individuals on average, we simulate changes to the poverty rate for different-sex couples that would occur if heterosexual women got the same returns as lesbians. Compared to the poverty rate of 7.9% for lesbian couples, the poverty rate for women in married different-sex couples is just 5.8% -- lower than for lesbian couples, because heterosexual women enjoy the economic benefits of being partnered with a man. But raising the wages of heterosexual women would reduce poverty for both kinds of different-sex couples. As shown in figure 5, the poverty rate for married different-sex couples would fall from 5.7% to 5.1% if heterosexual women had the same returns as lesbians, and it would fall from 14.5% to 12.3% for unmarried different-sex couples.

Figure 5: Poverty Rates for Different-Sex Couples given Equality Between Lesbian and Heterosexual Women’s Wages
In our final simulation we adjust for the fact that gay and bisexual men earn less than heterosexual men at the individual level (see Klawitter, 2015). However, gay men still earn more on average than lesbian, bisexual, and heterosexual women, so putting two gay male incomes together leads to higher household income than pooling the income of a straight man and woman. As a result, we see relatively low poverty rates for gay male households in the ACS: the poverty rate for men in same-sex couples is 3.3%, compared to 5.8% for different-sex married couples and 7.9% for same-sex female couples. Once we give men in same-sex couples the wages that comparable men in (either type of) different-sex couples would earn with the same characteristics, the male same-sex couple poverty rate drops to 2.2%.

Some groups of men in same-sex couples have much higher than average rates of poverty. African American men in same-sex couples have a poverty rate of 14.5%, and that would fall to 12.0% if they got the same returns to their characteristics as white men in different-sex couples. Hispanic men in same-sex couples would see their poverty rate fall from 4.9% to 4.1% if they got the same returns to characteristics as non-Hispanic men in different-sex couples.

Comparison of different wage gaps

One way to see the impact of gender, racial, ethnic, and sexual orientation wage gaps on poverty is to compare the drop in poverty rates as we eliminate the gaps one at a time. To make this simpler to present, although somewhat different from the impacts we describe above, we average the relative high poverty rates for women in same-sex couples with the relatively low rates for men in same-sex couples to get a 5.6% poverty rate for all same-sex couples. Likewise, we average the relatively low poverty rate of married different-sex couples to the relatively high rate of unmarried different-sex couples to get a 6.6% poverty rate for all different-sex couples. Table 1 presents each new simulation of poverty rates with wage equality for these broader groups of all same-sex couples (regardless of gender) and all different-sex groups (regardless of marital status).
First, we close the two sexual orientation wage gaps. We raise the wages of men in same-sex couples as if they got the same financial impact of their characteristics as men in different-sex couples. We also raise the wages of women in different-sex couples as if they got the same returns as women in same-sex couples. The poverty rates of both same-sex and different-sex couples drop: from 5.6% to 5.1% for same-sex couples, and from 6.6% to 5.8% for different-sex couples.

Second, we close the gender wage gap by giving all women the same returns that men receive. (Note we are not controlling for the sexual orientation wage gaps here.) Again both groups see a fall in the poverty rate, but it’s much larger for same-sex couples, who would have a 4.3% rate, than for different-sex couples with a 5.7% poverty rate.

Third, we close the racial wage gap by giving African American men and women the same returns to characteristics that white men and women receive. Again, the overall poverty rate of the whole group of people in same-sex couples falls, to 5.2%, and the rate for all people in different-sex couples falls to 6.3%. If we closed the ethnic wage gap, the overall poverty rates would fall to 5.4% for both groups.

Taking the wage gaps individually in Table 1, we see that closing the gender wage gap would have the biggest impact on poverty for both same-sex couples and different-sex couples.

Finally, we can eliminate all three wage gaps at once by giving everyone the same returns on characteristic that a white man in a different-sex couple would receive. The final line of Table 1 shows that eliminating all three wage gaps would reduce the poverty rates by more than a third for both groups, to 3.8% for same-sex couples and 3.9% for different-sex couples. In other words, eliminating all three wage gaps would reduce poverty and would completely eliminate the poverty gap between same-sex couples and different-sex couples.

**Table 1: Summary impact of each wage gap on poverty rates for same-sex and different-sex couples**

<table>
<thead>
<tr>
<th>Wage gap</th>
<th>Same-sex couples</th>
<th>Different-sex couples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual poverty rates</td>
<td>5.6%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Eliminate the sexual orientation wage gaps</td>
<td>5.1%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Eliminate the gender gap</td>
<td>4.3%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Eliminate the racial/ethnic gap</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Racial gap for African Americans</td>
<td>5.2%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Ethnic gap for Hispanics</td>
<td>5.4%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Eliminate all wage gaps</td>
<td>3.8%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

**Conclusions**

Eliminating gender, racial, ethnic, and sexual orientation wage gaps in the economic value of personal characteristics would increase the incomes of women, people of
color, and gay men, and this study shows that those higher incomes would result in lower poverty rates. In some cases, closing the wage gaps also closes the poverty gap in the sexual orientation and racial/ethnic comparisons.

Eliminating the gender wage gap would have the biggest impact on poverty, according to these findings, since women are the largest disadvantaged group. Poverty rates drop dramatically for all couple types that include at least one woman when we eliminate differences in returns for men and women. The poverty gap for female same-sex couples, whose poverty rates are much higher than poverty for married different-sex couples, disappears completely in the gender gap simulations.

Reducing the wage gap between whites and African Americans would decrease poverty by 25-30% for African American couples, whether same-sex couples or different-sex couples. Adjusting wages to eliminate the gap between Hispanics and non-Hispanics has an even larger effect for Hispanic different-sex couples’ poverty rates than for same-sex couples, but poverty rates fall for all types of couples.

Finally, if heterosexual women could take advantage of the “lesbian wage advantage,” poverty rates for different-sex couples would fall slightly. The fall is somewhat larger drop for unmarried different-sex couples.

Taken as a whole, these findings show that gender, racial, and ethnic inequality in wages is an important reason that some groups have higher-than-average poverty rates. Our final section shows that reducing wage gaps by equalizing the financial rewards for important characteristics like education and experience for individuals in disadvantaged groups would significantly reduce poverty and could completely eliminate the gaps between same-sex couples and different-sex couples.

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Works Cited


