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Sent: Monday, February 11, 2008 10:50 AM

To: Hoang, Julie

Subject: Using the ADJUST Variable in the ACS PUMS

Please review the following information containing a few revisions in blue and a document containing PUMS Inflation Adjustment documentation.

When working with dollar amounts in the PUMS, it is necessary to apply an adjustment factor. The factor is included in the PUMS datasets and is called ADJUST. The reason this adjustment is needed is because interviews in the ACS were conducted throughout the year. Application of the adjustment factor will convert dollar amounts to 2006 dollars. Note that the value of ADJUST is the same for all sample cases (its value is 1.015675 for 2006). This is for disclosure avoidance reasons, that is, so that the month of interview cannot be identified by the adjustment factor.

When working with dollar amounts from different years, it is necessary to convert the amounts into dollars from a common year (after applying the adjustment factor described in the previous paragraph). We use the CPI-U-RS adjustment factors from the Bureau of Labor Statistics. These factors can be found at the following URL: <http://www.bls.gov/cpi/cpirsdc.htm>. [For example, to express year 2000 dollars in terms of 2006 dollars, multiply the 2000 dollars by  $[296.1/252.9]=1.17081851$ .

(1) Data users will need to multiply the microdata by the ADJUST variable on the PUMS files for each individual year.

(2) Once that has been done, you can perform the following calculations to get older years in terms of 2006 dollar values.

To get 2000 income in terms of 2006 dollars multiply the 2000 dollar value by 1.17081851 To get 2001 income in terms of 2006 dollars multiply the 2001 dollar value by 1.13884615 To get 2002 income in terms of 2006 dollars multiply the 2002 dollar value by 1.12074186 To get 2003 income in terms of 2006 dollars multiply the 2003 dollar value by 1.09626064 To get 2004 income in terms of 2006 dollars multiply the 2004 dollar value by 1.06741168 To get 2005 income in terms of 2006 dollars multiply the 2005 dollar value by 1.03278689

For more information please reference the PUMS Inflation Adjustment documentation.

(See attached file: PUMS Inflation Adjustment documentation on the next page)

Thanks,

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**Adjusting Income for Inflation** – ACS Income amounts are reported for the 12 months preceding the interview month. Monthly Consumer Price Indices (CPIs) are used to inflation-adjust these components to a reference calendar year (January through December). For example, a household interviewed in March 2006 reports their income for March 2005 through February 2006. Their income is inflation-adjusted to the 2006 reference calendar year by multiplying their reported income by the 2006 average annual CPI (January-December 2006) and then dividing by the average CPI for the March 2005-February 2006 income reference period. Since there are twelve different income reference periods throughout the interview year, there are twelve different income inflation adjustments that take place. To maintain respondent confidentiality, none of the twelve inflation-adjustment factors are on the PUMS files. Instead, a variable, “ADJUST,” is on the file and is the average of the twelve inflation adjustment factors.

In order to inflation adjust income amounts from previous years to the current reference calendar year, dollar values on individual records are multiplied by the average annual CPI-U-RS for the current reference year then divided by the average annual CPI-U-RS for the earlier income amount year.