COALITION ON HUMAN NEEDS
1825 K Street, NW · Suite 411 · Washington, DC 20006 · 202.223.2532 · Fax 202.223.2538 · www.chn.org

June 21, 2019

The Honorable Nancy Potok, Chief Statistician
Office of Management and Budget
9257 New Executive Office Building
725 17th St., NW
Washington, DC 20006

Re: **Directive No. 14, "Consumer Inflation Measures Produced by Federal Statistical Agencies"**

Dear Dr. Potok:

Thank you for the opportunity to comment on the applicability of various consumer inflation measures in annually adjusting the Official Poverty Measure (OPM). I write on behalf of the Coalition on Human Needs (CHN), an alliance of one hundred national organizations dedicated to meeting the needs of low-income and vulnerable people by defending and improving federal services and benefits. The human service providers, faith organizations, policy experts, labor and civil rights groups and other advocates who make up CHN have studied and utilized the Official Poverty Measure for the 38 years of CHN's existence. We understand its uses and shortcomings. Our staff has trained thousands of advocates annually in the proper use of U.S. Census Bureau surveys including the Current Population Survey (CPS) and the American Community Survey (ACS) that use the Poverty Thresholds (or OPM) to analyze poverty trends.

CHN's member organizations have expertise in areas such as housing, nutrition, health care, and employment. We know that the cost of securing the necessities of food, shelter, utilities, health coverage, transportation and child care well exceeds the Official Poverty Measure, and that the origins of the OPM, based on an estimate that a barebones food budget represented one-third of a poor household's costs, are outdated. These flaws are well-known, and ample research indicates that improvements in measuring poverty would at minimum take into account housing, out-of-pocket medical costs, and work-related expenses, while also counting more fully the income sources available to low-income people.

Instead of pursuing more research and analysis into the actual income and expenditures of the poor, the Office of Management and Budget is far more narrowly inquiring about the relative accuracy of various inflation indexes for the annual adjustment of the Official Poverty Measure. The evidence already available indicates that this approach will not improve the accuracy of the OPM. In fact, the specific inflation indexes highlighted by OMB – the Chained Consumer Price Index for Urban Consumers (Chained CPI-U) or the Bureau of Economic Analysis' Personal Consumption Expenditures Price Index (PCEPI) – are likely to make the measure of poverty less and less accurate over time. We strongly oppose any revision of the OPM by shifting to smaller annual inflation adjustments because it will not accurately reflect the experience and hardships of low-income people.

The Chained CPI-U and PCEPI will reduce annual Poverty Thresholds. Because both of these alternative inflation indexes assume that consumers substitute cheaper items for comparable items whose prices have risen, annual percentage changes in inflation are smaller. For example, a consumer faced with a price increase in oranges might substitute another cheaper fruit in her market basket. After ten years, use of the chained CPI would reduce the poverty thresholds by 2.0 percent, while use of the PCEPI would reduce the poverty line by 3.4 percent, according to projections by the Congressional Budget Office (CBO) as cited by the Center on Budget and Policy Priorities.[1]

The substitutions assumed in the Chained CPI or PCEPI do not reflect the experience of low-income consumers. Low-income people do not have the option to reduce their costs in the same way that other consumers do, because they are already forced to select only the cheapest items. For example, they may already be purchasing far less meat than better-off households, and so cannot benefit from switching from more expensive to cheaper cuts. Similarly, they are likely to be less able to benefit from savings due to volume purchases at big box stores, because they do not have the funds to lay out for volume purchases and may not be able to get to such stores because they do not have a car or cannot afford the gas to get there. They are less likely to have access to the internet or to credit cards to make cheaper online purchases. CHN's service providers and community groups have often described the "food deserts" in poor communities, where access to supermarkets is limited, leaving people in those communities with little alternative besides small bodegas with higher prices and poor selections of fresh produce.

Inflation may be higher for the items actually purchased by low-income people than for the population as a whole. Over the nine years from the third quarter of 2004 through the third quarter of 2013, average inflation accumulated to 33% for households with incomes below $20,000 but to just 25% for households with incomes above $100,000.[2]

Low-income people must spend most of their income on the most basic necessities. The combined cost of a two-bedroom apartment in a medium-cost metropolitan area and a minimally adequate diet would be $21,000 in 2018, 84 percent of the poverty threshold for a family of four. They have little opportunity to reduce their costs for these items. The cost of rent rose 31 percent from 2008 to 2018, compared to a 17 percent increase overall for CPI-U. The Bureau of Labor Statistics created experimental cost indices made up of basic necessities (shelter, groceries, clothing, energy, and medical care), and found those items rose on average 2.99 percent per year from 1982 to 2014, faster than the 2.78 percent per year growth for all household consumer purchases. Similarly, the Federal Reserve Bank of Chicago found that prices for the average package of goods and services purchased by poor households rose 0.18 percentage points a year faster from December 2003 to December 2013 than prices for the average package of goods and services bought by all income groups.[3]

Both the CPI-U and Chained CPI-U as well as the PCEPI underestimate the cost of shelter as a proportion of low-income households' expenses. With both variants of the Consumer Price Index, shelter costs make up about one-third of the package of goods and services bought by low-income households. But the PCEPI only counts shelter costs as about 15 percent of the low-income household's market basket. This considerably understates the high share of housing costs in an actual low-income household.

A Pew Charitable Trusts[4] analysis found increasing levels of high "rent-burden," as quoted below:

"• In 2015, 38 percent of all "renter households" were rent burdened, an increase of about 19 percent from 2001.

"• The share of renter households that were severely rent burdened—spending 50 percent or more of monthly income on rent—increased by 42 percent between 2001 and 2015, to 17 percent. Increasing rent burdens were driven in part by year-over-year growth in gross rent—contract price plus utilities—that far exceeded changes in pretax income, which means that after paying rent, many Americans have less money available for other needs than they did 20 years ago.

"• In 2015, 46 percent of African-American-led renter households were rent burdened, compared with 34 percent of white households. Between 2001 and 2015, the gap between the share of white and African-American households experiencing severe rent burden grew by 66 percent.

"• Senior-headed renter households are more likely than those headed by people in other age groups to be rent burdened. In 2015, about 50 percent of renter families headed by someone 65 or older were rent burdened, and more than a fifth were severely rent burdened."

If inflation is higher for low-income households than for all households, the use of an index such as the Chained CPI would, by lowering the annual inflation adjustment, make the poverty threshold ***less*** accurate than the current estimates.

There is an existing body of research showing alternative measures of poverty and need. Recognizing that the Official Poverty Measure is flawed, both in its counting of income sources and expenditures, the U.S. Census Bureau adapted research conducted by the National Academy of Sciences in 1995 to develop the Supplemental Poverty Measure (SPM). This analysis has been published annually since 2011 and is still considered experimental. The SPM incorporates income sources such as the Supplemental Nutrition Assistance Program (SNAP) and refundable tax credits. It also makes estimates of expenditures for housing, out-of-pocket medical costs, and work-related expenses. The most recent Supplemental Poverty Measure report, with data from 2017, shows a higher poverty rate overall than the official measure (13.9 percent versus 12.3 percent). In particular, because the SPM counts out-of-pocket medical expenses, the SPM shows far higher poverty rates for people over age 65 as compared to the official measure (14.1 percent versus 9.2 percent), and higher poverty among workers, presumably because work-related expenses are counted (8 percent for SPM; 5.3 percent for the official measure). If OMB wishes to consider ways to measure poverty trends more accurately, the SPM is a very good place to start.

In addition, other tools exist to assess more reliably what it costs families or individuals to cover essential expenses:

Asset Limited, Income Constrained, Employed (ALICE): As an alternate measure of households' ability to meet basic needs, the United Way of Northern New Jersey has developed the Asset Limited, Income Constrained, Employed standard (ALICE). This is a new way of defining and understanding the struggles of households that earn above the Federal Poverty Level, but do not make enough to afford a bare-bones household budget. The ALICE research team develops a Household Survival Budget that estimates a county's total cost of all household essentials, plus taxes and a ten percent contingency allowance. The team then develops a threshold minimum income level that covers this basic household budget. An income assessment then measures the income households need to reach the threshold, the income a household actually earns, the amount of public and nonprofit assistance provided, and develops an "unfilled gap" that estimates the shortfall between the threshold and the combined value of a household income and public and nonprofit assistance provided. Reports utilizing the ALICE model for various states are available here (https://www.unitedforalice.org/all-reports).

Self-Sufficiency Standard: Another alternate measure of poverty is the Center for Women's Welfare Self-Sufficiency Standard. This standard, developed by Dr. Diana Pearce, is another budget-based measure of the real cost of living for a household. The Self-Sufficiency Standard determines the income required for a working family to meet basic needs (including taxes), taking into account family composition, ages of children, and geographic differences in costs. The Self Sufficiency Standard shows that it takes income well beyond the poverty line to meet basic needs. The standard aims to be as consistent and accurate as possible while accounting for differences among family types and cost of living in different regions. Costs are calculated for over 700 family types, including one adult with no children, one adult with one infant, one adult with one preschooler, and so forth up to three-adult families with six teenagers. There are special weighted standards for families with seven to children or four to ten adults. So far, this measure has been calculated for 41 states. Reports available for states are shown here: http://selfsufficiencystandard.org/node/28.

The commonalities of these disparate measures are that they take into account estimates of expenditures, varied by family type, size, and location. They show that income far beyond the current Poverty Thresholds would be needed to afford these expenditures. OMB should investigate these approaches to get a more realistic sense of what it costs to ensure that a family can afford necessities. Since these multiple approaches, plus the research cited above, all show that it would take incomes far higher than the official poverty measure to secure basic needs, it is clear that simply shrinking the inflation adjustment, so that poverty thresholds are reduced over time, will worsen the existing shortcomings of the poverty measure.

The importance of an accurate Official Poverty Measure. OMB is not seeking comment on the impact of changing the HHS poverty guidelines, and we are not commenting directly on that issue. However, were you to consider moving forward with a change to the thresholds that affects the guidelines, it would be imperative to first undertake in-depth research and analysis, and solicit public comments, regarding the potentially negative impact a change in the thresholds would have on low income and other vulnerable populations.

It would in fact be irresponsible for OMB to consider a change in the Poverty Thresholds without an analysis of the likely impact on people, both because of the need to have a proper understanding of the extent of poverty and deprivation, and because the Poverty Thresholds are used in establishing guidelines for eligibility for services and benefits.

While a full evaluation of the impact of a change in the Poverty Thresholds on eligibility for means-tested programs is beyond the scope of these comments, OMB must certainly call for such an analysis separately from this request for information. It is important to note, however, that the Official Poverty Measure (or Poverty Thresholds) are used in calculating the Poverty Guidelines that determine either eligibility for assistance or benefit levels for many vital programs.

A list of such programs follows, which may not be complete:

Department of Health and Human Services:

o Community Services Block Grant
o Head Start
o Low-Income Home Energy Assistance Program (LIHEAP)
o PARTS of Medicaid (31 percent of eligibles in Fiscal Year 2004)
o Hill-Burton Uncompensated Services Program
o AIDS Drug Assistance Program
o Children's Health Insurance Program
o Medicare – Prescription Drug Coverage (subsidized portion only)
o Community Health Centers
o Migrant Health Centers
o Family Planning Services
o Health Professions Student Loans — Loans for Disadvantaged Students
o Health Careers Opportunity Program
o Scholarships for Health Professions Students from Disadvantaged Backgrounds
o Job Opportunities for Low-Income Individuals
o Assets for Independence Demonstration Program
o Breast/Cervical Cancer Early Detection
o Maternal and Child Health Block Grant

Department of Education:

o Federal TRIO Program
o College Access Challenge Grants
o Preschool Development Grants

Department of Agriculture:

o Supplemental Nutrition Assistance Program (SNAP) (formerly Food Stamp Program)
o Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
o National School Lunch Program (for free and reduced-price meals only)
o School Breakfast Program (for free and reduced-price meals only)
Child and Adult Care Food Program (for free and reduced-price meals only)
o Expanded Food and Nutrition Education Program
o Summer Food Service Program o Commodity Supplemental Food Program
o Food Distribution Program for American Indians
o Nutrition Program for the Elderly

Department of Energy:

o Weatherization Assistance for Low-Income Persons

Department of Labor:

o Job Corps o National Farmworker Jobs Program
o Senior Community Service Employment Program
o Workforce Investment Act Youth Activities

Department of the Treasury:

o Low-Income Taxpayer Clinics

Corporation for National and Community Service:

o Foster Grandparent Program
o Senior Companion Program

Legal Services Corporation:

o Legal Services for the Poor

This very long list of programs is of great importance to low-income people. In particular, children, seniors, people with chronic health problems or disabilities, women, and communities of color are likely to be affected significantly by a change in the Official Poverty Measure that results in reducing the income level defined as below the poverty line. If the income level that establishes eligibility for programs is reduced over time, more and more people who find it difficult to make ends meet will find themselves above the cut-off point for assistance. The Center on Budget and Policy Priorities[5] has done analyses showing that, in the tenth year after a switch to a shrinking inflation measure such as the Chained CPI:

- More than 250,000 low-income seniors and people with disabilities would lose or receive less help from Medicare's Part D Low-Income Subsidy Program. Medicare Part D provides assistance in paying for prescription drugs.
- More than 150,000 low-income seniors and people with disabilities would lose eligibility for subsidies that cover their Medicare Part B premium (Medicare Part B covers physician visits and other outpatient care).
- More than 300,000 children would lose Medicaid or Children's Health Insurance Program (CHIP) coverage.
- More than 250,000 adults would lose Medicaid coverage made possible through the Medicaid expansion provided under the Affordable Care Act in states that chose to expand Medicaid; some very poor parents covered in non-expansion states would also lose Medicaid coverage.
- Millions of people gaining health insurance through the Affordable Care Act marketplace would have to pay higher premiums because their premium tax credits would decline; more than 150,000 would see their deductibles increase because they would receive less help with cost-sharing.
- Nearly 200,000 people, primarily in working households, would lose all food assistance through the Supplemental Nutrition Assistance Program (SNAP).
- More than 100,000 school-age children would lose eligibility for free or reduced price school meals; another 100,000 children would no longer qualify for free school meals, but would be eligible for reduced price meals.
- An estimated 40,000 infants and young children would lose food and counseling benefits provided by the Special Supplemental Nutrition Program for Women, Infants and Children (WIC).

Another recent analysis by the Urban Institute[6] looked at the impact of a reduced inflation adjustment (the Chained CPI) if it had replaced the current inflation index fifteen years before 2016. Looking at the

SNAP food assistance program, they found that if the smaller inflation adjustment had been in place for fifteen years, 579,000 SNAP beneficiaries in 2016 would have been ineligible for assistance, including an estimated 242,000 children through age 17.

These estimates are evidence that a switch to an inflation adjustment such as the Chained CPI would cause serious harm to millions of people over time. The Urban Institute paper makes it clear that the impact would grow significantly over the years. After five years, 104,000 people would lose SNAP benefits; after ten years, those defined out of SNAP rises to 245,000, with 579,000 losing nutrition benefits after fifteen years.

Without undertaking a thorough analysis, including further comments from experts and low-income community members, OMB would precipitate severe losses in assistance among people who do not have other resources to cover their food or medical needs.

Losing these vital forms of assistance will compromise the health and development of children and threaten the health of seniors and people with disabilities.

There is a substantial body of evidence[7] that young children in low-income families who receive SNAP are less likely to experience ill health, hospitalizations, or developmental delays than other comparable children who do without SNAP. They do better in school. Caregivers receiving SNAP also have better health than comparably low-income adults without SNAP and are more able to afford medical care because they have help with food costs.

Other programs that would be affected by a constricted inflation adjustment are also needed to protect the health of the low-income people who now qualify for them. This is certainly true of the Medicare, Medicaid, and Affordable Care Act assistance listed above. It is also true of programs such as the Low Income Home Energy Assistance Program (LIHEAP). About 6 million people received LIHEAP assistance in 2018. Most states set eligibility for LIHEAP at 150 percent of the federal poverty guidelines. (Under law, states can choose to set a lower eligibility level, but not less than 110 percent of the poverty guidelines.) A 2018 survey conducted by the National Energy Assistance Directors' Association (NEADA) [8]found that:

- 46 percent of LIHEAP households had a senior in the household aged 60 or older.
- 52 percent had a disabled household member.
- 36 percent had a child 18 or younger.
- 82 percent had annual household income below $20,000.

The NEADA survey found that one-third of low-income American households who received LIHEAP help last year to pay utility bills received shut-off notices that caused many families to go without food or medicines to pay them, and 15 percent had their heat and light shut off before receiving LIHEAP assistance.

Summary: Switching to an inflation index that reduces the Official Poverty Measure year after year will understate the extent of poverty and underestimate actual need and hardship. Over time, this will result in fewer people getting help they demonstrably need.

OMB should not switch to an inflation index like the Chained CPI that is not appropriate for the actual spending patterns of low-income people. The use of the Chained CPI or other similar indexes will have the effect of arbitrarily defining people out of poverty who do not have the income to replace the lost benefits. Over time, when the shrinking poverty measure is used to calculate the Poverty Guidelines used to establish eligibility for vital assistance, millions of people will go without help.

OMB should instead seek a thorough-going evaluation of the programs that may be affected, who is served by those programs, and the expected impacts on health, education, work participation, and well-being.

Thank you for this opportunity to comment. Please contact me if you require additional information.

Deborah Weinstein,
Executive Director
Coalition on Human Needs
1825 K Street, NW, Suite 411
Washington, DC 20006
dweinstein@chn.org

---

[1] Aviva Aron-Dine and Matt Broaddus, ***Poverty Line Proposal Would Cut Medicaid, Medicare, and Premium Tax Credits, Causing Millions to Lose or See Reduced Benefits Over Time,*** Center on Budget and Policy Priorities, May 22, 2019, available at https://www.cbpp.org/research/poverty-and-inequality/poverty-line-proposal-would-cut-medicaid-medicare-and-premium-tax

[2] Greg Kaplan and Sam Schulhofer-Wohl, ***Inflation at the Household Level***, Journal of Monetary Economics, 2017, available at
https://gregkaplan.uchicago.edu/sites/gregkaplan.uchicago.edu/files/uploads/kaplan_schulhoferwohl_jme_2017.pdf

[3] Arloc Sherman and Paul N. Van de Water, ***Reducing Cost-of-Living Adjustment Would Make Poverty Line a Less Accurate Measure of Basic Needs***, Center on Budget and Policy Priorities, June 11, 2019, available at https://www.cbpp.org/research/poverty-and-inequality/reducing-cost-of-living-adjustment-would-make-poverty-line-a-less

[4] Pew Charitable Trusts, ***American Families Face a Growing Rent Burden***, April, 2018, available at https://www.pewtrusts.org/-/media/assets/2018/04/rent-burden_report_v2.pdf

[5] Aviva Aron-Dine, Matt Broaddus, Zoe Neuberger and Arloc Sherman, ***Administration's Poverty Line Proposal Would Cut Health, Food Assistance for Millions Over Time,*** Center on Budget and Policy Priorities, June 18, 2019, available at https://www.cbpp.org/research/poverty-and-inequality/administrations-poverty-line-proposal-would-cut-health-food

[6] Gregory Acs and Laura Wheaton, ***Proposed Changes to the Poverty Line Would Reduce SNAP Participation Over Time***, Urban Institute, June 2019, available at
https://www.urban.org/sites/default/files/publication/100410/proposed_changes_to_the_poverty_line_would_reduce_snap_participation_over_time_1.pdf

[7] Allison Bovell-Ammon, MDiv; Stephanie Ettinger de Cuba, MPH; Deborah A. Frank, MD, Supplemental Nutrition Assistance Program: Building a Healthy Foundation Today and Tomorrow, Children's HealthWatch, June 22, 2018, available at https://childrenshealthwatch.org/wp-content/uploads/SNAP-and-Health-Research-Report.pdf

[8] NATIONAL ENERGY ASSISTANCE DIRECTORS' ASSOCIATION ***2018 NATIONAL ENERGY ASSISTANCE SURVEY FINAL REPORT*** December 2018, available at http://neada.org/wp-content/uploads/2015/03/liheapsurvey2018.pdf