Empire Justice Center

Albany ♦ Rochester ♦ White Plains ♦ Long Island

Nancy Potok
Chief Statistician
Office of Management and Budget
statistical_directives@omb.eop.gov

RE: Directive #14 (Request for Comment on the Consumer Inflation Measures Produced by Federal Statistical Agencies

Dear Ms. Potok:

The Empire Justice Center is a statewide legal services organization with offices in Albany, Rochester, Westchester and Central Islip (Long Island), New York. The Empire Justice Center provides support and training to legal services and other community-based organizations, undertakes policy research and analysis, and engages in legislative and administrative advocacy. We also represent low income individuals, as well as classes of New Yorkers, in a wide range of poverty law areas including foreclosure prevention, public benefits, domestic violence and civil rights.

Thank you for the opportunity to respond to your request for comments on "…the strengths, weaknesses and best practices for the application of consumer price indexes (i.e. inflation measures) produced by the Bureau of Labor Statistics (BLS) and the Bureau of Economic Analysis (BEA)"; as well as the impact of the use of different inflation measures on the "Official Poverty Measure" (OPM) used to determine financial eligibility for innumerable governmental and non-governmental purposes and programs. Comments are sought on the proposal to update the federal poverty measure for inflation and the Census Bureau's poverty thresholds using an alternative, lower measure of inflation than the traditional Consumer Price Index (known as the "CPI-U"). The CPI-U was introduced in 1978 as a broader and more representative index of the urban, non-institutional population of the United States. [1] The proposed alternatives, the "chained" CPI and the Personal Consumption Expenditures Price Index (PCEPI), would result in lower poverty thresholds, with the gap between the current and proposed methodology increasing each year.[2] Like the CPI-U, PCEPI tracks changes in real

[1] https://www.bls.gov/cpi/additional-resources/chained-cpi-introduction.pdf
[2] https://www.cbpp.org/sites/default/files/atoms/files/5-22-19-pov.pdf

prices paid by consumers for goods and services, but the two indexes differ in several important ways. For starters, the CPI, which typically is slightly higher than the PCEPI, captures only what urban consumers spend out-of-pocket for a common basket of goods and services. The PCEPI, on the other hand, includes all goods and services consumed in the U.S. whether they are purchased by consumers or by employers or federal programs on behalf of consumers.[3]

The US Census Bureau issues an annual public report on the level of poverty in the country. The report provides an estimate of the number of people who are poor; the percentage of people living below the poverty level; the poverty distribution by age, sex, ethnicity, location, etc.; and the level of income inequality.[4] The Census Bureau uses a set of money income thresholds that vary by family size and composition to determine who is poor. If a family's total income is less than the family's threshold, then that family and every individual in it is considered in poverty. The official poverty thresholds do not vary geographically (except for Hawaii and Alaska) but they are updated for inflation using the CPI-U. The official poverty definition uses money income before taxes, and does not include capital gains or noncash benefits (such as public housing, Medicaid, and food stamps).[5]

Every year, eligibility for programs including Medicaid, Affordable Care Act insurance premium subsidies, SNAP, school meals, and home heating and cooling assistance is determined with reference to the federal poverty line. That measure is adjusted annually for inflation.[6] The proposed alternative methods for updating the OPM would result in increasingly lower calculations of inflation, which would reduce poverty thresholds and poverty guidelines: After 10 years, use of the chained CPI would reduce the poverty line by 2%, while use of the PCEPI would reduce the poverty line by 3.4%[7] The result of such reductions would be that fewer people would be considered poor. This proposal has no relationship to any realistic measure of whether low income families can meet their basic needs.

Background

Approximately 10 years ago, recognizing the inadequacy of the OPM, a federal interagency task force produced the very widely used Supplemental Poverty Measure (SPM) which generally shows a higher poverty level and rate for most types of households, as compared to the OPM.[8] Along with the SPM, the majority of states also rely on the "Self Sufficiency Standard" which defines the amount of income required for working families to meet basic needs at a minimally

[3] https://www.wsj.com/articles/cpi-vs-pce-untangling-the-alphabet-soup-of-inflation-gauges-1426867398
[4] https://www.investopedia.com/terms/f/fpl.asp
[5] https://ask.census.gov/prweb/PRServletCustom/YACFBFye-rFIz_FoGtyvDRUGg1Uzu5Mn*/!STANDARD
[6] https://www.chn.org/proj/the-latest-plan-to-deny-assistance-shrinking-the-poverty-line/
[7] https://www.cbpp.org/research/poverty-and-inequality/poverty-line-proposal-would-cut-medicaid-medicare-and-premium-tax
[8] https://www.ssa.gov/policy/docs/ssb/v75n3/v75n3p55.html

adequate level, taking into account family composition, ages of children, and geographic differences in cost.[9] It too recognizes the inadequacy of the current OPM and its adjustments for inflation. Another measure of poverty used in many states is the "Asset Limited Income Constrained Poor" (ALICE). Although these standards of poverty may differ somewhat based on the consideration of different factors and are used for a variety of purposes, they all demonstrate the inadequacy of the outdated OPM. The OPM was developed to indicate the number and proportion of people with inadequate family income for basic needs,[10] in which it clearly fails by underestimating poverty: to apply the proposed inflation measures would simply compound the harm.

The official poverty measure was first established in the 1960s during the Johnson Administration, based upon research showing that low-income families at the time spent about one-third of their income on food.[11] The OPM is both incomplete and outdated. Although it has been increased for inflation, the OPM has not been revised to reflect the needs of families in this century. When the OPM was first developed poor single parents were not expected to work, and, for example, were exempted from the public assistance work rules until their children were six years old.[12] Today, most low income families spend a high percentage of their income on housing and child care. In fact, child care costs equal or exceed the cost of housing in most counties, and single parents receiving public assistance generally are only exempt from the work rules for three months.[13]

Similarly, not all income sources are included in the OPM. If the OBM wants to look at a revised definition of poverty, it could do so. The Bureau of the Census has undertaken this kind of research, developing the SPM, which does count income sources such as SNAP and refundable tax credits, as well as taking into account more accurately expenditures such as housing, child care, and out of pocket medical expenses.

The OMB has said it is not seeking comments on the impact of changing the HHS poverty guidelines which are based on the OPM. However, eligibility for and amount of benefits that

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[9] http://www.selfsufficiencystandard.org/

[10] https://www.census.gov/content/dam/Census/topics/income/supplemental-poverty-measure/spm-twgo https://www.census.gov/content/dam/Census/topics/income/supplemental-poverty-measure/sum.pdfbservations.pdf

[11] The one-third proportion of income dedicated to food was then essentially multiplied by three to determine a poverty-level income. Whether that figure was ever valid as a basis for determining poverty, it is no longer true that low-income families spend one-third of their income on food. As discussed below, other costs, such as housing and child care demand increasingly larger percentages of household income. See, for example, Gordon Fisher, "The Development and History of the U.S. Poverty Thresholds – A Brief Overview, Department of Health and Human Services, 1997, https://aspe.hhs.gov/history-poverty-thresholds.

[12] "A Brief History of the AFDC Program," published by the Office of the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services, https://aspe.hhs.gov/systemfiles/pdf/167036/1history.pdf.

[13] http://www.selfsufficiencystandard.org/the-standard

many of our clients receive are frequently tied to measuring their income against the federal poverty level. Therefore, if a change to the poverty thresholds would affect the poverty guidelines, our clients would likely be adversely affected. Therefore, OMB should go forward cautiously and with in-depth research and analysis: It should solicit public comments regarding impacts such as the number of individuals losing assistance and a demographic profile of those individuals and families, how service providers would be affected, and how the impacts would change over time. It is incumbent on OMB to engage in due diligence in this regard before suggesting a policy change that would harm large numbers of people.

Households just above the official poverty line report higher than average rates of food insecurity and difficulty paying rent and utilities[14] and they are more likely to be uninsured. These facts illustrate that shrinking the annual rate of increase in the OPM will artificially push people over the poverty line even though they struggle to meet the most basic necessities. Such a change would be unsupported by the evidence, and would have the unfortunate impact of increasing hardships for people who work for low and volatile wages and for retirees whose earnings were never high and who were unable to build adequate savings. The OMB should not ignore all the evidence of low-income worker and retiree spending and income patterns, and simply shrink the annual inflation adjustment for the poverty measure. Far from making the annual assessment more accurate, it will make the current flaws worse. People who would be most adversely affected by this unsupported change include children, single mothers, people of color, people with disabilities, and low-income retirees. They need programs such as Medicaid, Medicare Part D prescription drug subsidies, SNAP, LIHEAP, Weatherization, and Head Start. Denying or reducing benefits by making the poverty line a less accurate reflection of their circumstances is contrary to Congressional intent and the national interest.

Revising the measure of inflation, which would in turn adjust the OPM so as to further lower the level of what is considered poor is in direct opposition to the primary purpose of the OPM which is to accurately measure poverty. We respectfully request that OBM establish a more realistic measure of inflation that does not further widen the gap between those who the OPM determines to be poor, and those who have income above the OPM, but who, because of the increased costs of supporting work through child care and other increased costs not accounted for, cannot meet their basic needs.

We urge the OMB to conduct a thorough assessment of how any new measure of inflation impacts the poverty level before it acts to change that measure.

[14] https://www.cbpp.org/press/statements/trump-administration-floating-changes-to-poverty-measure-that-would-reduce-or

Again, thank you for the opportunity to comment.

Sincerely,

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Empire Justice Center

Inez Haettenschwiller, Attorney Emeritus
Empire Justice Center