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DELIVERED ELECTRONICALLY

Nancy Potok
Chief Statistician, Statistical and Science Policy
Office of Information and Regulatory Affairs
Office of Management and Budget

RE: OMB-2019-0002: Request for Comment on the Consumer Inflation Measures Produced by Federal Statistical Agencies

Dear Ms. Potok:

The UC Berkeley Labor Center is a public service and outreach program of the UC Berkeley Institute for Research on Labor and Employment. Founded in 1964, the Labor Center conducts research and education on issues related to labor and employment. One major topic of focus for the Labor Center's research is health insurance and health care access in California. The Labor Center also conducts research on the challenges facing California low-wage workers.

We submit this comment in response to the Office of Management and Budget's request for comment on changing the inflation index used to annually update the Census Bureau's Official Poverty Measure (OPM). The request for comment lists Chained Consumer Price Index for All Urban Consumers (Chained CPI-U) as a potential replacement for the Consumer Price Index for All Urban Consumers (CPI-U). We urge you to not change the cost of living adjustment method for the OPM to Chained CPI-U, any other the other measures mentioned in the request for comment, or any other index that shows lower growth than the current CPI-U. Additionally, we urge you to include other issues apart from cost of living adjustments when considering any changes to the OPM.

Chained CPI-U Does Not Accurately Measure the Cost of Living for Low-Income People

Currently, the federal poverty line is adjusted each year according to the change of CPI-U, which measures the price level for goods and services purchased by residents of urban or metropolitan areas.[1] The request for comment discusses using the Chained CPI-U, which tries to take into account changing purchasing decisions caused by price increases.[2] Recent studies have shown that CPI-U, the current inflation index, underestimates growth of cost of living for low-income families. This may be because rent makes up a larger portion of low-income families' budgets and health care costs make up a larger portion of low-income seniors' budgets. Both rent and health care costs are increasing faster than other prices, which would cause CPI-U to understate the cost of living increases facing low-income families.[3]

Chained CPI-U would not measure cost of living increases for low-income families more accurately. Neither rent nor health care are easily substituted when their prices rise so the smaller increases in cost of living measured by Chained CPI-U would only make the current discrepancy worse for low-income families.

The Official Poverty Measure Has Many Flaws

The OPM has other flaws that lead it to underestimate the poverty threshold. Many of these flaws are due to the age and design of the OPM. The measure was developed in the 1960s based on data from 1955, and has since only been updated for inflation. Only food expenses were used in setting the original threshold. As a result, the OPM does not adequately account for all the required spending in low-income families' budgets. In particular, it does not consider spending on child care or out-of-pocket medical costs.[4]

Correcting all of the flaws in the OPM would lead to a higher poverty threshold. The Census Bureau has created an alternative to the OPM, the Supplemental Poverty Measure, which takes into account a wider range of household expenses, and is higher than the OPM for most household configurations.[5] Other groups have also created alternative poverty thresholds. In California, the Stanford Center on Poverty and Inequality and the Public Policy Institute of California have created the California Poverty Measure (CPM) as an alternative to the OPM. In

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[1] U.S. Bureau of Labor Statistics. 2019. "Chapter 17. The Consumer Price Index." https://www.bls.gov/opub/hom/pdf/cpihom.pdf

[2] U.S. Bureau of Labor Statistics. 2019. "Chapter 17. The Consumer Price Index." https://www.bls.gov/opub/hom/pdf/cpihom.pdf

[3] Kaplan, Greg and Sam Schulhofer-Wohl. 2017. "Inflation at the household level." *Journal of Monetary Economics*. https://gregkaplan.uchicago.edu/sites/gregkaplan.uchicago.edu/files/uploads/kaplan_schulhoferwohl_jme_2017.pdf and Argente, David and Munseob Lee. 2017. "Cost of Living Inequality during the Great Recession." *Kilts Center for Marketing at Chicago Booth – Nielsen Dataset Paper Series*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2567357 and Parrott, Sharon. 2019. "Trump Administration Floating Changes to Poverty Measure That Would Reduce or Eliminate Assistance to Millions of Lower-Income Americans." Center on Budget and Policy Priorities. https://www.cbpp.org/press/statements/trump-administration-floating-changes-to-poverty-measure-that-would-reduce-or

[4] Blank, Rebecca M. and Mark H. Greenberg. 2008. "Improving the Measurement of Poverty." The Hamilton Project. https://www.brookings.edu/wp-content/uploads/2016/06/12_poverty_measurement_blank.pdf

[5] Fox, Lina. 2018. "The Supplemental Poverty Measure: 2017." U.S. Census Bureau. https://www.census.gov/content/dam/Census/library/publications/2018/demo/p60-265.pdf

2016, the CPM calculated that the poverty threshold for a family of four was about $31,000, substantially higher than the OPM threshold of $24,300.[6]

The OPM is only a fraction of what is required to make ends meet in California. Research by the California Budget and Policy Center has found a family of four with two working parents needs an income of almost $76,000, or three times the OPM, to meet their basic needs. Even in the regions of the state with the lowest costs of living, this family would still need an income of $55,000 (more than double the OPM) to support themselves. In high cost areas of the state, the OPM only accounts for one-fourth of the income needed for basic expenses.[7]

Rather than adjusting the OPM upwards, a change to Chained CPI-U for cost of living adjustments would reduce the poverty threshold. Rather than improving the measure, only modifying this one component of the OPM would exacerbate current problems with the OPM. The alternative method used to calculate Chained CPI-U results in slower growth in the cost of living as compared to CPI-U. Over the next ten years, the Congressional Budget Office projects that the cost of living measured by CPI-U will increase by 27 percent, but the cost of living measured by Chained CPI-U will increase by only 24.5 percent.[8] As Chained CPI-U shows slower cost of living growth, using it to update the OPM would cause the OPM to be lower than it would be if updated using CPI-U. The federal poverty guidelines published by the Department of Health and Human Services are based on the OPM, so a lower OPM would also result in lower federal poverty guidelines.

A Switch to Chained CPI-U Would Affect Program Eligibility and Benefits

Many public healthcare and public assistance programs, including Medicaid, subsidies for health insurance through the Affordable Care Act (ACA) marketplace, and the Supplemental Nutrition Assistance Program (SNAP), have eligibility thresholds or benefit formulas that are based on family income as a percentage of the federal poverty guidelines. Lower federal poverty guidelines would cause that percentage to rise, making some individuals and families ineligible for programs or reducing the benefit they receive.

We understand that you are not currently seeking comment on the impact of any changes to the inflation index used to update the OPM. However, before pursuing any major policy change related to the OPM, it is imperative that you conduct analysis and seek public comment on the potential impacts to low-income populations such as reductions in eligibility and benefit levels for participants in Medicaid, ACA marketplace customers receiving subsidies, SNAP, and other

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[6] Public Policy Institute of California. 2018. "Just the Facts: Poverty in California." https://www.ppic.org/publication/poverty-in-california/

[7] Kimberlin, Sara and Amy Rose. 2017. "Making Ends Meet: How Much Does It Cost to Support a Family in California?" California Budget and Policy Center. https://calbudgetcenter.org/resources/making-ends-meet-much-cost-support-family-california/

[8] Congressional Budget Office. 2019. "10-Year Budget Projections, January 2019." https://www.cbo.gov/system/files/2019-01/51135-2019-01-economicprojections.xlsx

programs. It would also be critical to estimate potential impacts on uninsurance, and potential economic impacts resulting from changes in program eligibility and benefits.

We have analyzed some of the effect of a change to Chained CPI-U on health care programs using projections from the California Simulation of Insurance Markets (CalSIM) Model, which our center jointly developed with the UCLA Center for Health Policy Research.[9] We estimate that if the use of Chained CPI-U were to be adopted in 2021, by 2028:

- 30,000 adults and 30,000 children who would otherwise be enrolled in Medi-Cal (California's Medicaid program) would lose eligibility; and

- Over 1 million Californians with subsidized coverage through Covered California (California's ACA marketplace) would receive smaller premium subsidies, and some would lose their subsidies entirely. A family of four with an income of $80,000 would have to pay an additional $300 per year in premiums.[10] Some of these Californians would also receive reduced assistance with out-of-pocket costs. For a family with income just below 200 percent of the poverty line, this change could more than triple their deductible.[11]

Additionally, some of the 3.7 million Californians enrolled in CalFresh (California's SNAP program)[12] could lose access to the program, as could many of the Californians enrolled in dozens of other public programs which use the federal poverty line to establish eligibility or benefits.

In summary, using Chained CPI-U or any other index that shows lower growth than the current CPI-U for cost of living adjustments to the OPM would lower the OPM over time, which would reduce eligibility and benefits for many public programs including Medicaid, subsidies for ACA marketplace coverage, and SNAP. Chained CPI-U is not a more accurate measure of inflation for low-income families, and there are other more significant flaws with the OPM that if fixed would raise the poverty threshold. For these reasons, we recommend that method for making annual cost of living adjustments to the OPM not be changed to Chained CPI-U, any other the other measures mentioned in the request for comment, or any other index that shows lower growth than the current CPI-U. We also recommend that the other issues with the OPM be included in any plans to alter the OPM.

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[9] UCLA Center for Health Policy Research. "CalSIM: Modeling the future of health care." https://healthpolicy.ucla.edu/programs/health-economics/projects/CalSIM/Pages/default.aspx

[10] Aron-Dine, Aviva and Matt Broaddus. 2019. "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." https://www.cbpp.org/research/poverty-and-inequality/poverty-line-proposal-would-cut-medicaid-medicare-and-premium-tax

[11] Covered California. "2019 Patient-Centered Benefit Designs and Medical Cost Shares." https://www.coveredca.com/PDFs/2019-Health-Benefits-table.pdf

[12] California Department of Social Services. 2019. "CalFresh Data Dashboard." https://public.tableau.com/profile/california.department.of.social.services#!/vizhome/CFdashboard-PUBLIC/Home?publish=yes

Sincerely,

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