To: Nancy Potok, Chief Statistician, Office of Management and Budget

From: LeadingAge

Date: June 21, 2019

Subject: LeadingAge Response to Request for Comment on the Consumer Inflation Measures Produced by Federal Statistical Agencies

SUBMITTED ELECTRONICALLY

Nancy Potok, Chief Statistician
Office of Management and Budget,
9257 New Executive Office Building,
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Re: Request for Comment on the Consumer Inflation Measures Produced by Federal Statistical Agencies (84 FR 19961)

To Nancy Potok:

LeadingAge appreciates the opportunity to respond to the Office of Management and Budget's (OMB) Request for Comment on the Consumer Inflation Measures Produced by Federal Statistical Agencies.

The mission of LeadingAge is to be the trusted voice for aging. The members of LeadingAge and partners impact the lives of millions of individuals, families, employees and volunteers every day. Our over 6,000 members and partners include non-profit organizations representing the entire field of aging services, 38 state associations, hundreds of businesses, consumer groups, foundations and research centers. LeadingAge is a 501 (c)(3) tax-exempt charitable organization focused on education, advocacy and applied research.

Aging services providers, including LeadingAge members, provide services for which Medicaid and other public payers provide coverage. Eligibility for such coverage is often based in part by income, specifically in relation to the Federal Poverty Level (FPL), which is derived from the Official Poverty Measure (OPM) and the poverty threshold. Any changes to how the OPM is calculated, therefore, will have an impact on aging services providers and their ability to provide needed long-term services and supports to older adults.

## Introduction

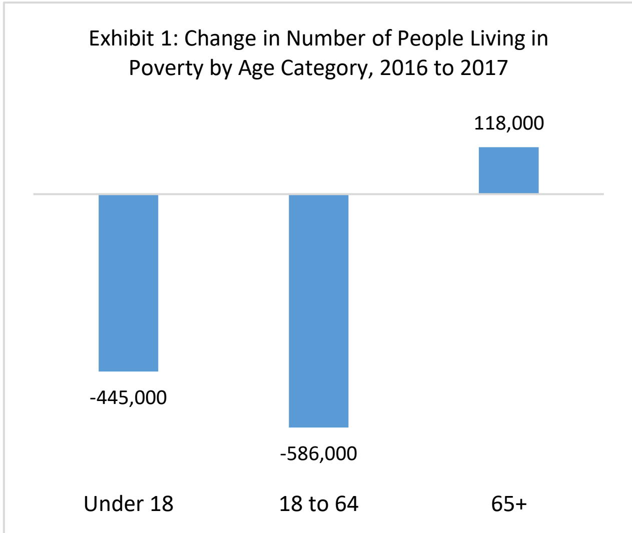
### The Official Poverty Measure and Its Importance to Older Adults

The Official Poverty Measure (OPM) is an important tool updated each year by the U.S. Census Bureau. It provides an estimate on the number of people in the United States living in poverty and is used by policymakers, service providers and researchers to identify which segments of our population are more or less likely to be in poverty, and to help determine who qualifies for programs for which eligibility is tied to income.

The OPM is calculated by counting the number of individuals and families with incomes lower than the Census Bureau's poverty threshold. In 2018, the poverty threshold for a single person was $13,064 for adults 65+ and $12,043 for adults under age 65. For two-person households, the threshold was $16,815 if the householder was 65+, and $15,178 if the householder was younger.[1]

The U.S. Census Bureau publishes comprehensive data related to poverty using the OPM and the poverty threshold. In 2017, the latest year for which such data is available, the official poverty measure was 12.3 percent, down slightly from 2016 (12.7 percent). Among adults 65+, the poverty measure in 2017 was 9.3 percent, down from 9.2 percent in 2016.[2]

Despite this percent decrease, 118,000 more adults 65+ were in poverty in 2017 compared to 2016. This increase occurred while poverty among children under 18 decreased by 445,000 people and among adults 18 to 64 by 586,000 people (Exhibit 1).[3]




Accordingly, poverty and the OPM is an issue of particular importance to older adults and the providers that serve them, particularly considering that the 65+ population is projected to increase substantially over the next decade as Boomer's continue to turn 65 and older.[4]

Any changes to how the OPM is calculated must consider the impact on the older adult population.

[1] U.S. Census Bureau, Poverty Thresholds, 2018 data file, https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-thresholds.html

[2] Kayla Fontenot, Jessica Semega, and Melissa Kollar, U.S. Census Bureau, Income and Poverty in the United States: 2017, Page 11, https://www.census.gov/content/dam/Census/library/publications/2018/demo/p60-263.pdf

[3] Kayla Fontenot, Jessica Semega, and Melissa Kollar, U.S. Census Bureau, Income and Poverty in the United States: 2017, Table 3. People in Poverty by Selected Characteristics: 2016 and 2017, https://www.census.gov/content/dam/Census/library/publications/2018/demo/p60-263.pdf

[4] U.S. Census Bureau, 2017 National Population Projections Tables, Table 2. Projected age and sex composition of the population, https://www.census.gov/data/tables/2017/demo/popproj/2017-summary-tables.html

## How the U.S. Census Bureau Calculates the Official Poverty Measure

Each year, the poverty threshold is updated to reflect inflation. Currently, that inflation is measured by the consumer price index for urban consumers (CPI-U). Measured by the Bureau of Labor Statistics (BLS), CPI-U measures “the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.”[5] It is a commonly used tool to measure inflation over time both nationally and at the state and local levels. For the purposes of calculating the OPM, the Census Bureau uses the national CPI-U figure.

From 2017 to 2018, the annual average increase in CPI-U was 2.4 percent.[6] From 2010 to 2018, the annual average increase in CPI-U was 1.77 percent.[7]

The purpose of OMB’s request for comment is to collect feedback from the public on the use of CPI-U for this purpose as well as the potential use of other types of measures, listed below:

- Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)
- Chained Consumer Price Index for All Urban Consumers (C-CPI-U)
- Experimental Consumer Price Index for the Elderly (CPI-E)
- Consumer Price Index Research Series Using Current Methods (CPI-U-RS)
- Personal Consumption Expenditures Price Index (PCEPI)

The Bureau of Labor Statistics has ownership over each of these measures except for PCEPI, which is under the Bureau of Economic Analysis. In the sections that follow, we discuss the implications potential changes to the OPM calculation for older adults and for aging services. We also include the sections listed in the request for comment and provide feedback on each. We will focus primarily on the CPI-U and the C-CPI-U indexes.

## Implications of Changing the Official Poverty Measure for Aging Services

Changes to the OPM calculation would also have implications for access to long-term services and supports (LTSS) and other aging services. According to the Medicaid and CHIP Payment and Access Commission (MACPAC), every state uses the FPL, which is derived from the OPM and the poverty threshold, to determine eligibility for Medicaid LTSS both in nursing homes and in home and community-based settings.[8] While states have varying levels of the FPL set as eligibility criteria, there is consistent, national use of FPL as the financial eligibility determinate for Medicaid LTSS that would be affected over time by any change in how the U.S. Census Bureau calculates the OPM.

If a slower growing inflation factor, such as C-CPI-U, were to be used in calculating the OPM’s poverty threshold, then over time there would be fewer older adults eligible for such services

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[5] Bureau of Labor Statistics, Consumer Price Index, https://www.bls.gov/cpi/

[6] Bureau of Labor Statistics, Historical Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, all items, by month, https://www.bls.gov/cpi/tables/supplemental-files/historical-cpi-u-201905.pdf

[7] LeadingAge analysis of the Bureau of Labor Statistics’ Historical Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, all items, by month, https://www.bls.gov/cpi/tables/supplemental-files/historical-cpi-u-201905.pdf

[8] Medicaid and CHIP Payment and Access Commission, Medicaid Income Eligibility Levels as a Percentage of the FPL for Individuals Age 65 and Older and People with Disabilities by State, https://www.macpac.gov/publication/medicaid-income-eligibility-levels-as-a-percentage-of-the-fpl-for-individuals-age-65-and-older-and-people-with-disabilities-by-state/

and supports compared to the continued use of CPI-U. As a result, low-income older adults would not have access to the LTSS they need, and nursing homes and other aging services providers would be able to serve fewer people through Medicaid.

In addition to Medicaid LTSS, several other federal programs that support older adults would see reduced eligibility over time if the OPM were to use C-CPI-U or a similar, slower growing index. This includes subsidies that help low income people afford Medicare premiums, cost sharing and prescription drug coverage, as well as Supplemental Nutrition Assistance Program (SNAP), the Senior Community Service Employment Program (SCSEP), the Low-Income Home Energy Assistance Program (LIHEAP) and others.[9]

Several states also use the FPL to determine eligibility for state-level programs, including those carried out with federal funds. About half of states, for example, use the FPL as eligibility criteria for certain Older Americans Act services.[10]

## Sections from the Request for Comment

**The strengths and weaknesses of the indexes for different applications or uses; the strengths and weaknesses of the use of the CPI-U to make annual adjustments to the OPM, as established in OMB's Statistical Policy Directive #14, and discussion of potential alternative indexes. (Items 1 and 2)**

Per OMB's Statistical Policy Directive #14 (1978), CPI-U has long been used by the federal government to make adjustments to the OPM. CPI-U is the most common tool used to measure changes in prices over time and could be the most accurate measure of those listed in the request for comment to use for the purposes of the OPM. C-CPI-U is not an appropriate measure for the OPM, as explained in the sections that follow.

*Comparing CPI-U and C-CPI-U and their Long-Term Impacts on the OPM*

CPI-U increases at a slightly faster rate than C-CPI-U, by an average of 0.3 percentage points per year. This difference compounds over time and results in long-term discrepancies in inflation estimates between the two measures. From August 2002 to August 2017, according to one analysis, the increase of CPI-U (35.9 percent) outpaced that of C-CPI-U (31.6 percent) by 4.8 percentage points.[11]

If applied to the OPM, the C-CPI-U would have the effect of slowing the increase of the poverty threshold over time, leading the OPM to estimate a lower number of people, including older adults, living under the poverty threshold than if CPI-U had been used. Exhibit 2 quantifies the potential long-term impact of using C-CPI-U for the OPM, by applying the 31.6 percent estimated increase mentioned above to the 2002 poverty threshold and comparing it to the actual 2017 poverty threshold.

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[9] U.S. Department of Health & Human Services, Office of the Assistant Secretary for Planning and Evaluation, Frequently Asked Questions Related to the Poverty Guidelines and Poverty, https://aspe.hhs.gov/frequently-asked-questions-related-poverty-guidelines-and-poverty

[10] Administration for Community Living, Process Evaluation of the Older Americans Act Title III-E National Family Caregiver Support Program: Final Report, Table 23, https://acl.gov/sites/default/files/programs/2017-02/NFCSP_Final_Report-update.pdf

[11] Gregory Acs, Urban Institute, https://www.urban.org/urban-wire/better-measure-inflation-doesnt-mean-better-measure-poverty

**Exhibit 2: Poverty Threshold Differences, 2002-2017 actual and 2002-2017 with C-CPI-U**

| Poverty Threshold | One person | One person under 65 years | One person 65 years and older |
|---|---|---|---|
| 2002 Poverty Threshold | $9,183 | $9,359 | $8,628 |
| 2017 Poverty Threshold- Actual | $12,488 | $12,752 | $11,756 |
| 2017 Poverty Threshold if C-CPI-U had been used since 2002 | $12,085 | $12,316 | $11,354 |
| **Difference** | **$403** | **$436** | **$402** |
| Source: LeadingAge analysis of the U.S. Census Bureau poverty threshold data, using a C-CPI-U growth rate from the Urban Institute | | | |

As shown, C-CPI-U would have led to a poverty threshold $403 less in from 2002 to 2017 had it been used instead of CPI-U. A similar decrease could be expected over time if the C-CPI-U is adopted for the OPM, reducing the number of people who would be considered to be living in poverty.

*The Assumptions Used by C-CPI-U Do Not Match with Measuring Poverty*

A key difference between CPI-U and C-CPI-U is the latter's inclusion of changes in buyer behavior between types of goods and services as prices change. This difference is a key driver of C-CPI-U's lower annual growth compared to CPI-U. While some economists suggest that C-CPI-U's approach is more accurate for measuring overall inflation, it does not make C-CPI-U an appropriate tool by which to measure poverty over time.

Several economic studies have found that inflation has a greater impact on lower-income households compared to their wealthier counterparts, yet they are less able to make changes in their buying behavior to offset these faster increases.[12]

In one economic study, for example, researchers found that prices grew by 33% from 2004-2013 among households with incomes lower than $20,000, compared to just a 25% increase over the same time in higher income households ($100,000 or more).[13]

Another study focused on the Great Recession found that inflation was highest among lower-income households. This was in part because while wealthier households shifted their buying habits to less expensive options, lower-income households were less able to do so as they were often already consuming the least expensive options available.[14] This research reinforced findings from an earlier study, conducted by BLS, which found that lower-income households had less ability than higher-income households to change buying habits.[15]

[12] Arloc Sherman and Paul N. Van De Water, Center on Budget and Policy Priorities, https://www.cbpp.org/research/poverty-and-inequality/reducing-cost-of-living-adjustment-would-make-poverty-line-a-less

[13] Greg Kaplan and Sam Schulhofer-Wohl, Journal of Monetary Economics, Inflation at the household level, https://gregkaplan.uchicago.edu/sites/gregkaplan.uchicago.edu/files/uploads/kaplan_schulhoferwohl_jme_2017.pdf

[14] David Argente and Munseob Lee, SSRN, Kilts Center for Marketing at Chicago Booth – Nielsen Dataset Paper Series 1-032, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2567357

[15] Thesia Garner, David Johnson and Mary Kokoski, Bureau of Labor Statistics, An experimental Consumer Price Index for the poor, https://www.bls.gov/opub/mlr/1996/09/art5full.pdf

With this research in mind, the C-CPI-U is an inherent mismatch to the OPM as lower income people are less able to change their buying habits as prices change, which is a key assumption of the C-CPI-U.

*Previous Efforts to Replace CPI-U with C-CPI-U Have Been Unsuccessful*

Notably, previous efforts to replace CPI-U with C-CPI-U were not successful. In 2013, for example, there was a legislative proposal supported by the previous Administration that would have replaced CPI-U with C-CPI-U for cost of living adjustments to Social Security. If that proposal became policy, older adults and others who receive Social Security would have seen lower payments over time compared to what they would have gotten under a CPI-U adjustment. Just as the C-CPI-U would have increased the cost of living adjustment for Social Security at a slower rate, it would do the same for the OPM's poverty threshold and have the effect of reducing- inaccurately- the number of people consider to be living in poverty.

**The strengths and weaknesses of the different indexes for making annual adjustments to the historical income figures produced by the Census Bureau. (Item 3)**

No comment on this section.

**The need for and feasibility of guidance from OMB or other Federal source explaining the differences between indexes and best practices for their use. (Item 4)**

There could be value in some type of federal-published information (guidance or otherwise) explaining the differences between the indexes and examples of their use.

This would be particularly helpful with respect to comparing indexes from different agencies, for example the CPI-U and derivative indexes from BLS and the PCEPI from BEA.

Further information would also be welcome with respect to the CPI-E index. As noted in the request for comment, the CPI-E is experimental only at this point. Given our aging population and the intersecting issues of poverty and aging, further refining the CPI-E could be helpful towards establishing a more accurate measurement of how prices over time affect older adults.

**Recommendations for the use of the PCEPI and C-CPI-U for the production of official statistics, considering that both measures are revised after initial release. (Item 5)**

No comment on this section.

LeadingAge appreciates the opportunity to provide a response to this request for comments. If there are any questions, please don't hesitate to reach out to Brendan Flinn (bflinn@leadingage.org) of the LeadingAge staff.

Regards,

Brendan Flinn

Director of Home and Community-Based Services

LeadingAge