

June 19, 2019

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The Honorable Nancy Potok
Chief Statistician
Office of Management and Budget

Re: Directive No. 14

Dear Dr. Potok:

We respectfully submit the following in response to the Office of Management and Budget's call for comments on how various consumer price index inflation estimates would influence the Official Poverty Measure.

The comments below provide a summary of how changing from the CPI-U to chained CPI or the Personal Consumption Expenditures Price Index (PCEPI), which have smaller cost of living adjustments, would negatively impact Vermont, a small, rural state. For the benefit of those in our communities living in poverty, we strongly encourage you to reject this change.

Public Assets Institute is a think-tank in Montpelier, Vermont that works to improve the well-being of vulnerable citizens through research and fiscal analysis, and develops and advances policies to benefit them. Through our work, including our [State of Working Vermont](#) report, we have a sense of the scope of economic challenges experienced in our small state of 620,000 people, including the following facts:

- Over 11 percent of Vermonters lived in poverty in 2017.
 - Nearly 15 percent of Vermonters under five-years old were in poverty.
 - Minorities in Vermont were more likely to experience poverty than white citizens.
- The cost of rural housing in Vermont grew by 30.9 percent from 2006-2016. During that same time frame the CPI-U increased by 19.3 percent.
- Nearly 80,000 Vermonters depend on SNAP each year.
- 81.75 percent of Vermont SNAP recipients are in rural areas of Vermont.

Keeping the people that these statistics represent in mind, we are concerned about the impact of using the alternative indexes proposed by the OMB to adjust the poverty threshold annually, as outlined below. Using a lower index of inflation would cause people currently just below the poverty line to be deemed above poverty in following years.

Current Poverty Measure is Not Sufficient

The poverty line is already below what is needed to raise a family, as shown by the high rates of hardship among families with incomes just above the poverty line.

- Among non-elderly adults with incomes between the poverty line and twice the poverty line, over 60 percent reported one or more material hardships such as food insecurity, missed payments for utility bills or rent or mortgage, or problems paying family medical bills, according to a 2017 Urban Institute survey — not significantly different than for those in poverty.¹
- USDA data for 2017 show that, among near-poor households with children in 2017 with income between 1 and 1.3 times the poverty line, 29 percent couldn't consistently afford adequate food, compared with 40 percent of those below the poverty line.²
- The current poverty threshold does not fully represent those in Vermont experiencing material hardship. For a family of four with two adults, the poverty threshold was \$25,465 in 2018. This is over \$30,000 less than what the Vermont Joint Fiscal Office estimates a family of four needs to meet their basic needs.³

Notice Fails to Consider Other Significant Problems with the Poverty Line

Considerable research over the years – including a major report by the National Academy of Sciences⁴ – has identified various ways in which the poverty line appears to be inadequate. For example, the poverty line does not fully include certain costs that many low-income families face, such as child care.

In accordance with the guidance of the National Academy of Sciences panel, federal analysts worked carefully with researchers over a number of years to develop the supplemental poverty measure (SPM), which more fully incorporates the current cost of basic living expenses. Consistent with the evidence cited above, this more careful accounting results in a poverty line that is higher than the official poverty line for most types of households.

The OMB notice focuses on just one of many questions about the current poverty line – how it is updated for inflation – while ignoring the many other important issues that would need to be considered and analyzed (with opportunity for public comment) to construct a more accurate measure.

Notice Fails to Consider Evidence That Low-Income Households May Experience Higher Inflation

It is not at all clear whether the chained CPI is a more accurate measure *for low-income households*.

First, prices have been rising faster for the types of goods and services that dominate poorer households' spending. For example, low-income households spend a larger than average share of their budgets on housing; the price of rent rose 31 percent from 2008 to 2018, much faster than the overall CPI-U (17 percent).⁵ And as referenced above, the price of housing for Vermonters has risen by 30.9 percent from 2006-2016, while the CPI-U increased by 19.3 percent.

Second, some research suggests that lower-income households may face more rapidly rising prices for other reasons as well. Low-income households may have less ability to change their consumption patterns when relative prices change – for example, because they have few retail outlets in their neighborhood, lack access to convenient

¹ Michael Karpman, Stephen Zuckerman, and Dulce Gonzalez, "Material Hardship among Nonelderly Adults and Their Families in 2017," Urban Institute, 2018, https://www.urban.org/sites/default/files/publication/98918/material_hardship_among_nonelderly_adults_and_their_families_in_2017.pdf.

² Alisha Coleman-Jensen, Matthew P. Rabbitt, Christian A. Gregory, and Anita Singh, *Household Food Security in the United States in 2017*, U.S. Department of Agriculture, 2018, and CBPP calculations.

³ Vermont Legislative Joint Fiscal Office, "Vermont Basic Needs Budgets and Livable Wage," January 15, 2019, <https://ljfo.vermont.gov/assets/Subjects/Basic-Needs-Budgets/2c974b591b/2019-Basic-Needs-Budget-and-Livable-Wage-report-FINAL-1-15-2019-v2.pdf>.

⁴ National Research Council 1995. *Measuring Poverty: A New Approach*. Washington, DC: The National Academies Press.

⁵ U.S. Bureau of Labor Statistics (BLS) and CBPP calculations. The poorest fifth of households dedicate 40 percent of all expenditures to housing (including shelter, fuels, utilities, furnishings, and operations), compared with 33 percent for all households. Rent is even more concentrated among the poor. The poorest fifth dedicate 16 percent to rent, compared with 7 percent for all households, according to BLS data for 2017.

transportation, or do not have internet service at home.⁶ This is certainly true in Vermont, where 75 percent of those living in poverty live in rural areas, based on American Community Survey data.

Although not definitive, the studies cited above suggest that low-income households may experience higher rates of inflation than average or high-income households. Chained CPI and PCEPI both try to reflect changing consumer trends when assessing inflation. However, low-income households often are already buying the cheapest possible products, with no possibility of changing preferences other than going without. If there is room for price savings, in rural communities where the majority of impoverished Vermonters live, transportation is often a barrier to access cheaper products.

Indexing the poverty threshold by an inflation measure that grows less rapidly, such as the chained CPI, could make the poverty measure less accurate, not more so. At the very least, considerably more research is needed on this issue. OMB should undertake such research and solicit additional input from researchers, as well as public comment, before making any change.

OMB Should Analyze and Seek Comment on Impact of Poverty Line Changes on Program Eligibility

Because you said you were not seeking comment on how changing the official poverty line would impact the Department of Health and Human Services (HHS) poverty guidelines and program eligibility, we are not submitting comments on that issue. However, were you to consider moving forward with a change to the poverty line that would impact the HHS guidelines, it would be imperative to first undertake in-depth research and analysis, and solicit public comments, regarding issues such as:

- The impact on health insurance coverage and access to health care. After 10 years of updating the poverty line using the chained CPI, millions of people would lose eligibility for or receive less help from health coverage programs including Medicaid and the Children's Health Insurance Program (CHIP), Medicare Savings Programs, the Medicare Part D Low-Income Subsidy program, premium tax credits, and cost sharing reductions.⁷ OMB should quantify these impacts and analyze how the cuts to these programs would affect uninsured rates, access to care, financial security, and health outcomes for lower-income people, seniors, and people with disabilities.
- The impact on nutrition programs and food insecurity. Updating the poverty line using the chained CPI would cause people to lose eligibility for the Supplemental Nutrition Assistance Program (SNAP), school meals, and the Supplemental Nutrition Program for Women, Infants, and Children (WIC). OMB should quantify these impacts and analyze how the cuts to these programs would impact food insecurity and overall financial security for those affected.
- The impact on other basic assistance programs. Updating the poverty line using the chained CPI would also lower eligibility thresholds for many other federal programs, and could have ramifications for state-funded programs as well. OMB should identify the full list of these programs and analyze the impacts on beneficiaries.

⁶ See for example Greg Kaplan and Sam Schulhofer-Wohl, "Inflation at the Household Level," *Journal of Monetary Economics*, 2017, https://gregkaplan.uchicago.edu/sites/gregkaplan.uchicago.edu/files/uploads/kaplan_schulhoferwohl_jme_2017.pdf. David Argente and Munseob Lee, "Cost of Living Inequality during the Great Recession," Kilts Center for Marketing at University of Chicago Booth School of Business, Nielsen datasets Joint Paper Series, March 1, 2017, <https://ssrn.com/abstract=2567357>. Benjamin Faber and Thibault Fally, "Firm Heterogeneity in Consumption Baskets: Evidence from Home and Store Scanner Data," National Bureau of Economic Research, Working Paper No. 23101, August 2017, <https://www.nber.org/papers/w23101>. Xavier Jaravel, "The unequal gains from product innovations: Evidence from the US retail sector," Washington Center for Equitable Growth, March 14, 2017, <https://equitablegrowth.org/working-papers/unequal-gains-from-product-innovations/>.

⁷ 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, <https://www.cbpp.org/research/poverty-and-inequality/poverty-line-proposal-would-cut-medicaid-medicare-and-premium-tax>.

- Households above the poverty threshold, but below the basic needs budget who do not qualify for many public resources, such as SNAP benefits, and struggle to meet their basic needs.

Before considering moving forward to changing to the Census poverty thresholds that would impact the poverty guidelines, OMB should undertake in-depth, quantitative analysis of all of these issues, including research on how the impacts would grow over time. It should publish its findings and give the public an opportunity to comment on whether a change should be made in light of the likely consequences for uninsured rates, food insecurity, and other forms of hardship.

Thank you for your willingness to consider our comments. If you would like any additional information, please contact Paul Cillo, paul@publicassets.org

Sincerely,



Paul A Cillo
President

