

June 21, 2019

Nancy Potok  
Chief, Statistical and Science Policy, Office of Information and Regulatory Affairs  
Office of Management and Budget  
725 17th ST, N.W.  
Washington, DC 20503

***RE: Request for Comment on the Consumer Inflation Measures Produced by  
Federal Statistical Agencies, May 7, 2019.***

Dear Ms. Potok:

On behalf of our nearly 5,000 member hospitals, health systems and other health care organizations, our clinician partners – including more than 270,000 affiliated physicians, 2 million nurses and other caregivers – and the 43,000 health care leaders who belong to our professional membership groups, the American Hospital Association (AHA) appreciates the opportunity to comment on differences among various consumer price indexes produced by the Bureau of Labor Statistics (BLS) and the Bureau of Economic Analysis, and how these differences might influence the estimation of the Official Poverty Measure (OPM).

Accurately measuring poverty is a critical concern for our country. The OPM is a measure of economic need among our fellow Americans, and it is regarded by some as an indicator of our country's health and prosperity. Accurately measuring poverty allows us to better understand who the most vulnerable Americans are so we can meet them where they live with vital services that can empower and enable them to pursue their own prosperity.

**The AHA urges the Office of Management and Budget (OMB) to continue using the Consumer Price Index for All Urban Consumers (CPI-U) in making annual adjustments to the OPM.** The alternative measures of inflation, specifically those outlined in the request for comments, are critically flawed in that they do not accurately represent low-income and poverty-level households. Given these flaws, it would be inaccurate to adjust OPM annually by these alternatives.



**Background.** The OPM compares pre-tax cash income to a threshold of basic needs. When the measure was created in 1963, that threshold was set to three times the cost of a minimum food diet. The OPM is also adjusted for family size.<sup>1</sup> That methodology has remained in place, and OPM is adjusted annual by the CPI-U. OMB is seeking comments on alternative inflation benchmarks that could be used to adjust the OPM.

The Census Bureau uses the OPM to measure how many people were living in poverty retrospectively. The OPM also is used as the basis of the federal poverty guidelines, which are sometimes referred to as the “federal poverty level.” These guidelines are used to determine eligibility for a number of federal programs.

**The OPM does not accurately reflect modern-day expenses and resources; growing the measure more slowly will not make it more accurate.** The OPM is a measure of how many people in the country live in poverty and is intended to measure how many people have basic needs that exceed their income.

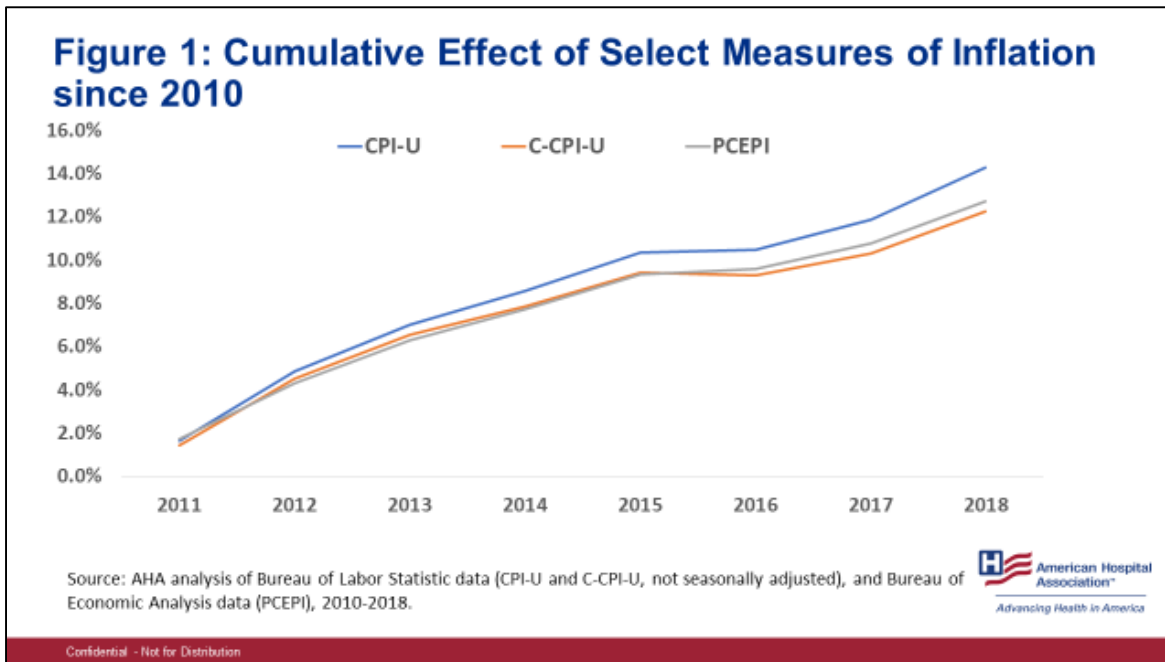
Researchers and policymakers have raised questions about how well the OPM achieves its goal of measuring economic need. The OPM methodology has not been updated since 1963. Today, we have far more data on consumer spending habits and a better understanding of experiences of people living in poverty. The Census now publishes a supplemental poverty measure (SPM) that takes into account research and data sources that have evolved since 1963. For example, the SPM has a broader definition of family that includes foster children, unmarried partners or any coresident, unrelated children. The measure of basic need includes food, clothing, housing and utilities, rather than just three times the cost of a minimum food diet.

The SPM better measures the number of people who live in poverty and consistently shows that more people are living in poverty than when measured by the OPM. According to the U.S. Census Bureau, approximately 13.9% of the people in the U.S. were living in poverty when measured by the SPM compared to 12.3% of people when measured by the OPM.

Growing the OPM more slowly will not make the OPM more accurate. The request for comments asks for recommendations for the use of Chained Consumer Price Index for All Urban Consumers (C-CPI-U) or Personal Consumption Expenditure Price Index (PCEPI) for the production of official statistics. The AHA is concerned that using these measures to inflate the OPM would further undercount the number of Americans living in poverty. Both alternatives lag behind the CPI-U (Figure 1).

---

<sup>1</sup> The OPM defines family size as related family members living in the same household. It excludes some household members that other statistics include, such as foster children and nonrelated children living in a household.



This technical change would have implications for how people living in poverty are counted and would affect eligibility for a number of public programs. But it would not change how many Americans are living in poverty, are economically insecure, and have poor access to health, nutrition and publicly funded educational services.

**Effect on Public Programs.** The AHA urges OMB to consider making changes to the OPM through the administrative rule-making process. The request for comment is not seeking feedback on the effect of inflation alternatives on the calculation of the federal poverty guidelines, which are used to determine eligibility for a number of basic assistance programs. However, any change to the OPM also would result in changes to the federal poverty guidelines and could, potentially, affect eligibility for public programs. If OMB moves forward with changes that could potentially affect millions of Americans, it should do so through the rulemaking process to allow OMB and other stakeholders the opportunity to assess the impact of such changes, and allow for public comment.

Programs that are tied to the federal poverty guidelines include: the Medicare Low-Income Subsidy program, which helps seniors and people with disabilities afford prescription drugs; Medicaid and the Children's Health Insurance Program (CHIP); Marketplace Advanced Premium Tax Credits and Cost-sharing Subsidies; the Supplemental Nutrition Assistance Program (SNAP); school breakfast and lunch programs; and Head Start. Any change to the OPM will affect eligibility for these programs. Some experts estimate that, by the 10th year, updating the poverty line using C-CPI-U, one of the alternative inflation measures identified by OMB, would mean:

- More than 250,000 seniors and people with disabilities would lose or get less help paying prescription drug costs.

- More than 300,000 children would lose Medicaid/CHIP coverage.
- More than 250,000 adults would lose coverage through the Medicaid expansion.
- More than 150,000 marketplace consumers would lose cost-sharing assistance and see higher deductibles; tens of thousands would lose premium tax credits.

**Strengths and Weaknesses of the Different Indexes for Purposes of Making Annual Adjustments to Official Statistics.** OMB seeks comment on the strengths and weaknesses of the different indexes. The AHA offers the following comments on the indexes identified in the request for comment.

*The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W):* CPI-W measures the average change over time in prices paid by urban wage earners and clerical workers. CPI-W places higher weights on food, apparel, transportation, and other goods and services, and lower weights on housing, medical care and recreation.<sup>2</sup>

CPI-W should not be used as an index to make annual adjustments to the OPM. The BLS states that CPI-W encompasses 32% of the United States' population compared to CPI-U, which comprises 87% of the population. These populations are different demographically, and their spending patterns differ as well. The population represented by CPI-W has more working-aged adults and fewer children than the population living in poverty. The population living in poverty spends a greater share of their household budget on housing and medical care than the CPI-W population. Another key difference is their access to health care. Many studies have shown that firms that employ a high proportion of low-wage workers are less likely to offer health insurance to their employees.<sup>3</sup> Given these differences, the AHA believes that CPI-W does not adequately reflect the experience of people living in poverty and would not be an appropriate index to adjust the OPM.

*The Chained Consumer Price Index for All Urban Consumers: C-CPI-U* is computed similarly to CPI-U, except that it takes into account that consumers will change their behavior in light of rising prices. Consumers seek lower cost options when the prices for a substitute good increase. For example, if the price of apples were to rise, consumers might switch to a different fruit.

One limitation of C-CPI-U, is that it assumes substitution effects are consistent across all incomes. Economists have shown that this is not the case. For example, one study found that low-income households have limited ability to substitute goods because they are already buying the lowest cost or lowest quality alternative.<sup>4</sup> Another study found that people in low-income households cannot take advantage of temporary sales or bulk

---

<sup>2</sup> <https://www.bls.gov/newsroom/faqs.htm#QuesT12>

<sup>3</sup> <https://www.macpac.gov/wp-content/uploads/2016/01/Employer-Sponsored-Insurance-for-Low-and-Moderate-Income-Children.pdf>

<sup>4</sup> Argente, D. & Lee, M. (September 2017). Cost of Living Inequality during the Great Recession. Retrieved from [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2567357](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2567357)

deals when prices rise because they lack capital required to make these substitutions.<sup>5</sup> These limitations raise questions about whether C-CPI-U adequately measures the prices paid by people living in poverty, and given these questions, the AHA believes that C-CPI-U should not be used to adjust the OPM.

*The Experimental Consumer Price Index for the Elderly (CPI-E):* To calculate the CPI-E, the BLS uses the same survey and price data used to determine CPI-U but applies different weights that are intended to better reflect the experience of adults aged 62 or older.<sup>6</sup> For example, older Americans spend a larger share of their total household budget on housing and medical, and a smaller share on food and beverages.

CPI-E should not be used as an index to make annual adjustments to the OPM for two reasons:

- First, the BLS suggests CPI-E should be interpreted with caution because it is still experimental. There are significant limitations, and more research is necessary to determine how well the CPI-E measures inflation as experienced by older adults. For example, the BLS would need to increase the sample size to ensure that the data are representative of the broader population. More work needs to be done to understand where older Americans live and shop to determine that the survey responses are truly representative.
- Secondly, CPI-E should not be used to adjust the OPM because it does not reflect the low-income population. Older Americans and low-income Americans have different spending patterns. For example, older Americans spend a larger share of their household budget on medical services and a smaller share on food relative to low-income Americans.<sup>7</sup> Moreover, these populations are very different. Children and working-age adults made up the majority of people living in households with income below the federal poverty threshold in 2015.<sup>8</sup> There is no evidence to suggest the household budget and spending experience of older Americans is similar to those of people living in poverty.

*The Consumer Price Index Research Series Using Current Methods (CPI-U-RS):* The BLS applies the current CPI-U methodology to the historical CPI-U series. This makes the CPU-U-RS historically consistent for the purpose of comparing the historical trend to modern day.

---

<sup>5</sup> Orhum, A. Y., & Palazzolo, M. (2016). Frugality is hard to afford. Retrieved from [https://gsm.ucdavis.edu/sites/main/files/file-attachments/frugality\\_is\\_hard\\_to\\_afford.pdf](https://gsm.ucdavis.edu/sites/main/files/file-attachments/frugality_is_hard_to_afford.pdf)

<sup>6</sup> [https://www.bls.gov/opub/ted/2012/ted\\_20120302.htm](https://www.bls.gov/opub/ted/2012/ted_20120302.htm)

<sup>7</sup> Bureau of Labor Statistics, U.S. Department of Labor. (April 2019). Consumer Expenditures in 2017. Report no. 1080. Retrieved from <https://www.bls.gov/opub/reports/consumer-expenditures/2017/home.htm>.

<sup>8</sup> Dalaker, J., Falk, G., & McCarty, M. (November 2016). Demographic and social characteristics of persons in poverty: 2015. Congressional Research Service.

The CPI-U-RS is not intended to measure inflation prospectively. There are questions around the accuracy of the CPI-U-RS, given that it's created by extrapolating based on BLS research that covers only a short period of time.<sup>9</sup> In addition, the BLS has made some improvements that have not been incorporated into CPI-U-RS. CPI-U-RS is intended to help researchers make modern day comparisons to a historical trend. Using CPI-U-RS as a benchmark to adjust the OPM would be inappropriate.

*The Personal Consumption Expenditure Price Index:* The PCEPI is a measure of the prices that people pay for goods and services. It includes prices paid by third parties on behalf of individuals. For example, the PCEPI includes payments from insurers made on behalf of an individual, and the out-of-pocket spending paid by the individual when receiving medical care.

Given the weaknesses of PCEPI, it should not be used as an index to adjust the OPM. PCEPI includes prices paid by third parties on behalf of the people included in the sample. The OPM is intended to be a measure comparing family income to expected expenses. Including payments made by third parties on behalf of people distorts this measure. More importantly, people living in poverty are more likely to be uninsured than people with income at or above 200 percent of the federal poverty level.<sup>10</sup> This creates two effects: people living in poverty are less likely to have third-party payments and, given the variation in payment rates between public and private payers, any third-party payments that are included are likely to be lower relative to the payments made on behalf of people with higher income. This raises questions about whether PCEPI adequately measures the prices faced by people living in poverty. Given these questions, the AHA believes that PCEPI should not be used to adjust the OPM.

The AHA appreciates this opportunity to share our comments with OMB, and we appreciate your consideration of these issues. Please contact me if you have questions or feel free to have a member of your team contact Ben Finder, senior associate director for policy, at [bfinder@aha.org](mailto:bfinder@aha.org) or (202) 626-2678.

Sincerely,

/s/

Ashley B. Thompson  
Senior Vice President  
Public Policy Analysis and Development

---

<sup>9</sup> <https://www.bls.gov/cpi/research-series/home.htm>

<sup>10</sup> <https://www.kff.org/uninsured/state-indicator/rate-by-fpl/>