



June 21, 2019

Nancy Potok
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Office of Management and Budget
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RE: OMB-2019-0002, Request for Comment on the Consumer Inflation Measures Produced by Federal Statistical Agencies; Directive No. 14; Federal Register (Vol. 84, No. 88), May 7, 2019

Dear Ms. Potok:

On behalf of our more than 400 hospital and health system members, the California Hospital Association (CHA) is pleased to respond to the Office of Management and Budget (OMB) request for comment on its decision to replace the Consumer Price Index for All Urban Consumers (CPI-U) with another inflation index for purposes of calculating the Census Bureau's Official Poverty Measure (OPM).

Since the OMB stated that it does not wish to receive comments on the poverty guidelines produced annually by the U.S. Department of Health and Human Services, we will not comment directly on that issue.

In summary, CHA recommends OMB:

- Maintain use of the current CPI-U methodology rather than switch to a chained CPI-U or PCEPI inflation index.
- Evaluate and mitigate the impact on safety-net programs that use the OPM, if discretionary changes are made.

The CPI-U has been used for more than 40 years as the inflation index of choice for calculating the Census Bureau's OPM and should be maintained

The OPM is an important indicator that establishes thresholds for many public programs impacting the overall well-being of Americans. Changes to the OPM calculation should always be subject to intense public scrutiny, because the results are significant — such as whether a low-income family qualifies for monthly food assistance or health insurance. While the current poverty measure has its weaknesses and has not kept pace with societal, economic, or governmental policy changes, proposing to change only a single component of the calculation without addressing larger concerns would cause significant disruption to existing safety-net programs. This, in turn, would directly impact the many Californians

who depend on health insurance through Medi-Cal, subsidies through Covered California, or food assistance through CalFresh. These important, complex programs have evolved over 40 years of legislative and regulatory changes at both the federal and state levels. Since the OPM began utilizing the CPI-U, each policy change has been built — and dependent — upon preceding changes. **CHA asks that OMB maintain use of the CPI-U methodology until it can consider the impact such a change would have on these carefully considered programs.**

Changes to the annual inflation index should improve overall accuracy

As outlined in OMB's request for information, use of the CPI-U is based on OMB's Statistical Policy Directive No. 14, issued in May 1978; this directive has never been updated. Since 1978, many analysts have analyzed the CPI-U, criticizing it for overstating the cost of living. The CPI-U does not account for adjustments in spending patterns, commonly referred to as "substitution bias." For this reason, analysts over the years have looked to other measures for adjusting the inflation factor used by the Bureau of Labor Statistics (BLS) when calculating the OPM. Neither option set forth by OMB for replacing the CPI-U is viable, for the reasons outlined below.

OMB discusses whether a chained CPI-U would more appropriately account for spending pattern changes while also providing a more accurate way of measuring the cost of living. While that may be true on average for the entire urban population, the chained CPI-U fails to address significant differences in cost of living for specific populations — for example, it assumes the cost of living for a child is equitable to that of an elderly person. This common criticism of the chained CPI-U is why BLS decided to produce an experimental Consumer Price Index for the Elderly (CPI-E), which analyzes the expenditure weights for households with a reference person of spouse of 62 years or older. In fact, since BLS started calculating the CPI-E in 1982, the CPI-E has resulted in a more accurate inflation factor, reflecting 0.2 percentage points higher annually when compared to the traditional CPI-U, and 0.45 percentage points higher when compared to the chained CPI-U¹. A key reason for the discrepancy is that both the traditional CPI-U and the chained CPI-U fail to address the fact that a larger proportion of an elderly individual's spending is related to a disproportionate share of medical expenses. Because of the CPI-U's failure to address significant variation in cost of living across populations, particularly with respect to the elderly, its use would negatively impact the OPM's accuracy.

OMB also requests feedback on potential use of the Personal Consumption Expenditures Price Index (PCEPI). However, a challenge common to both the PCEPI and the CPI-U is their inability to accurately account for the consumption patterns of low-income households. This is especially a concern in California, where a housing shortage is creating a higher demand for rental housing — and driving up costs. As a result, housing costs continue to grow rapidly, becoming a higher proportion of household budgets and outpacing any historical inflation trend. Both the chained CPI-U and the PCEPI measure rely on inflation for the economy and consumers overall. This fails to consider the hardships and disparities unique to low-income households when measuring the basic living expenses in California.

The alternatives that OMB proposed in its request for information would only worsen discrepancies in data related to cost of living for some of our state's most vulnerable populations. Any decision to replace the traditional CPI-U with an imperfect inflation index would be counterproductive and, as such, CHA asks OMB to reconsider these alternatives.

Any discretionary decision to change the annual inflation index for calculating the OPM should consider the impact on safety-net programs

As mentioned previously, Directive No. 14 was issued in May 1978 and has never been updated. Since then, no federal statute or regulatory change has been passed to require OMB to review or change the application of the CPI-U for purposes of calculating the OPM. CHA appreciates that OMB is utilizing its flexibility and discretion to proactively evaluate the appropriateness of the index used to calculate poverty thresholds. However, this must be matched by equally fervent analysis of the potential impact on the country's safety-net programs. So much of the American social safety net that exists today — programs that provide a range of health care services, social services, alcohol and drug services, income assistance, and public health services — is influenced by the calculation of the federal poverty line. This process should not proceed without further transparent analysis and stakeholder input.

Any change to the federal poverty calculation would be acutely felt in states like California. Despite our growing population and contributions to the U.S. and global economies, there continues to be a strong need for safety-net programs that improve the lives and well-being of our communities. Californians rely upon the stability provided by these important programs. Ensuring that the most vulnerable among us are safe and cared for is of paramount importance to our more than 400 hospitals and health systems. Hospitals — often the largest employer, and critical in first response — are key in the fabric of their communities and remain steadfast in their commitment to improving the health of all Californians.

Currently, one in three Californians — more than 13 million in total — receives their health insurance through California's Medicaid program (Medi-Cal). That includes more than 55% of California's population under the age of 18. In some rural counties, the proportion of Medi-Cal beneficiaries rises to nearly 60% of the county population². Another 1.3 million people receive health insurance coverage and federal subsidies through our health insurance marketplace (Covered California). Approximately one of 10 Californians, or more than 3.8 million people, currently qualifies to participate in the Supplemental Nutrition Assistance Program (CalFresh). The Supplemental Security Income (SSI)/State Supplementary Program (SSP) programs provide support to approximately 1.3 million low-income aged, blind, and disabled persons. **These safety-net programs have a profound impact on the health and well-being of all Californians, who contribute significantly to our robust U.S. and global economy.**

According to the University of California Berkeley Labor Center, if OMB were to adopt the chained CPI-U inflation index, an estimated 30,000 adults and 30,000 children would lose eligibility for the Medi-Cal program by 2028³. Another 1.3 million Californians would be impacted by a loss in premium assistance

through Covered California. Many families would lose eligibility for CalFresh and many aged, blind, and disabled people would lose their support through the SSI/SSP programs.

There is room to improve how the OPM is calculated today — but utilizing the chained CPI-U or the PCEPI would do nothing to improve the overall accuracy. Instead, it would be devastating to individuals and families statewide, and would be felt even more acutely in California's rural communities.

CHA appreciates the opportunity to comment on this request. If you have any questions, please do not hesitate to contact me at akeefe@calhospital.org or (202) 488-4688, or my colleague Ryan Witz, vice president, health care financing initiatives, at rwtitz@calhospital.org or (916) 552-7642.

Sincerely,

/s/

Alyssa Keefe
Vice President Federal Regulatory Affairs

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- 1) Testimony by Jeffrey Kling, Associate Director for Economic Analysis, before the Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives,
<https://www.cbo.gov/publication/44083>
 - 2) California Department of Health Care Services, 2016. "Proportion of California Population Certified Eligible for Medi-Cal By County and Age Group." https://www.dhcs.ca.gov/dataandstats/statistics/Documents/Medi-Cal_Penetration_Brief ADA.PDF
 - 3) Pery, I.E., 2019. "Proposed Trump Administration Change to Federal Poverty Definition Would Cut Aid to Millions of Californians." University of California Berkeley, Labor Center.
<http://laborcenter.berkeley.edu/proposed-fpl-cpi-change/>