119176

BY THE COMPTROLLER GENERAL

Report To The Honorable Daniel K. Inouye United States Senate

OF THE UNITED STATES

Social Security Benefit Increases For Inflation May Leave Many Retirees Worse Off Financially

Social security recipients get annual benefit increases to protect against inflation. Many also participate in income-tested public assistance programs, such as medicaid, food stamps, and housing assistance, which decrease benefits when the social security increases are received. In some instances, offsetting decreases in public assistance benefits can exceed the social security increases, resulting in net losses, and such persons are worse off than if the increases had not been received. Additional losses may occur due to recent public assistance program changes.

GAO (1) examined how various program rules contribute to this phenomenon for Hawaii retirees and (2) tried to estimate the number of persons that might be affected there as well as nationally. GAO believes the issue requires more comprehensive national analysis.

UNITED STATES GENERAL ACCOUNTING OFFICE

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-207785

The Honorable Daniel K. Inouye
United States Senate

Dear Senator Inouye:

This report responds to your September 9, 1980, request that we assess the July 1980 social security benefit increase's effects on other benefits received by retired persons in Hawaii, and the nature and possible magnitude of such effects. During our study several changes were adopted in public assistance programs. As agreed with your office, we analyzed the effects of these changes as well, in conjunction with the July 1981 social security benefit increase.

As agreed with your office, we will distribute copies of this report to interested parties upon issuance and make copies available to others upon request.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE HONORABLE
DANIEL K. INOUYE
UNITED STATES SENATE

SOCIAL SECURITY BENEFIT INCREASES FOR INFLATION MAY LEAVE MANY RETIREES WORSE OFF FINANCIALLY

D I G E S T

Social security retirement benefits are adjusted annually, beginning with the July monthly check, to protect retirees' purchasing power from inflation as measured by the Consumer Price Index. Many social security retirees have incomes low enough to qualify them for participation in means-tested public assistance programs, such as medicaid, food stamps, and housing assistance. Benefits under these programs may be reduced as recipients' incomes increase. As a result, when retirees receive increases in their social security checks, some experience offsetting reductions in other benefits.

At the request of Senator Daniel K. Inouye, GAO examined the net effects of the last two annual social security benefit increases--in 1980 and 1981--on the amounts of discretionary income Hawaii retirees had remaining after they had paid for their basic food, shelter, and medical care needs. GAO calculated the net effects by simulating cases of both individuals and couples receiving average social security benefits and participating in six different combinations of food stamp, medicaid "medically needy," and housing assistance programs.

GAO simulated basic necessity expenditures by using standards specified in these programs. The social security increases were examined in terms of real discretionary purchasing power effects--i.e., after accounting for inflation. Recent changes in the public assistance program benefit rules were also considered in assessing the effects, as were the numbers of persons, both in Hawaii and nationally, who might have been affected. GAO's results reflect the specific effects on the simulated case circumstances only, and not effects on any specific elderly American, or on all households in Hawaii or nationally which might be participating in the same program combinations under different personal circumstances. (See p. 2.)

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RESULTS OF THE ANALYSES

In all simulated cases the amount of real discretionary purchasing power retirees had remaining after paying for basic necessities declined. The declines were generally substantial, averaging 26.8 percent, but varied widely--from 3.8 to 80.4 percent. In some cases retirees would have been financially better off if they had not received the increases. (See pp. 16 to 18.)

Retirees receiving medicaid benefits under the "medically needy" option experienced higher discretionary purchasing power loss rates than those not receiving medicaid; those receiving housing assistance experienced lower loss rates than those who were not; and individuals generally experienced greater loss rates than couples. These effects are related to specific characteristics of the particular programs' eligibility and benefit rules and are generally cumulative in nature. Medicaid program requirements caused the greatest discretionary purchasing power losses. (See pp. 20 to 25.)

Hawaii State officials identified 9,426 social security recipient households that participated in different combinations of the three programs in the State and may have been affected. The number of social security households nationally that participate in these program combinations is about 3.6 million. These figures include households receiving survivors or disability, rather than only those receiving retirement benefits, but the effects would be the same for them. It was not possible to identify, on either the State or national level, precisely which households may have experienced what degree of loss in discretionary purchasing power because of a lack of adequate data about specific households. (See pp. 3 to 4 and 18 to 19.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Congressional intent is clear with regard to protecting, through annual benefit adjustments, the purchasing power of social security benefits. Because the purchasing power of benefits of need-based programs is not protected to the same degree, if at all, lower income social security recipients who also participate in public assistance programs stand to lose benefits from those programs as social security benefits increase.

The Congress may wish to further examine to what extent some social security recipients experience losses in discretionary purchasing power as a consequence of receiving annual social security benefit adjustments and whether measures can or should be taken to deal with such losses.

Several alternative approaches could be considered to address the issue of offsetting benefit losses. (See p. 27.) Such measures would require extensive analysis of their varying effects in different States, primarily because of differences in the operation of the medicaid program. This report identifies some alternatives, but does not examine them--or their associated costs--in detail.

The Congress may also wish to consider the need for better data--such as those that were beginning to be developed by the Social Security Administration's Survey of Income and Program Participation--about persons who participate in both social security and public assistance programs to more accurately model the effects of various approaches on different groups to aid it in deliberating on this issue.

AGENCY COMMENTS

GAO received comments from the Departments of Agriculture and Housing and Urban Development and the Office of Management and Budget (OMB). The Department of Health and Human Services did not comment. Agriculture and Housing and Urban Development agreed with the report's conclusions, pointing out that it accurately reflects current policies.

However, Agriculture suggested that food stamps should not have been characterized, in the report, as income. GAO disagrees. The Department of Housing and Urban Development stated that GAO did not consider the effects of certain proposed assisted housing program changes. GAO notes that these proposed changes are still being reviewed within the Department, have not yet been issued, and in any event appear to support GAO's findings.

OMB disagreed with GAO's conclusions and asserted that GAO (1) did not consider beneficiaries' possible other income and (2) should have used, for beneficiaries also receiving public assistance, a lower social security benefit level. OMB failed to consider the combined effect of these two factors--which GAO's report tends to do through use of the average benefit level--so that OMB's comments are inconsistent. Moreover, GAO performed further simulations at lower income levels suggested by OMB which confirmed GAO's initial findings. For more detailed discussion of these comments, see pages 28 to 31.

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ABBREVIATIONS

BLS	Bureau of Labor Statistics
CPI	Consumer Price Index
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
SIPP	Survey of Income and Program Participation
SSA	Social Security Administration
SSI	Supplemental Security Income

CHAPTER 1

INTRODUCTION

In accordance with Public Law 92-336, as amended, social security benefits for retirees, disabled workers, and survivors are automatically adjusted each June to reflect changes in the cost of living as measured by the Bureau of Labor Statistics' (BLS') Consumer Price Index (CPI). The indexed increases, intended to protect beneficiaries' purchasing power from inflation, are triggered when the inflation rate is 3 percent or more during a previous 1-year interval. Beneficiaries first receive the increases in their July monthly checks.

The July 1980 increase--14.3 percent--was the sixth consecutive automatic increase since the provision was enacted in 1972 and was the largest such increase to date. The July 1981 increase was 11.2 percent.

Many social security beneficiaries, with incomes and assets low enough to qualify them, also participate in such means-tested Federal public assistance programs as food stamps, medicaid, and housing assistance. In general, benefits from these programs are reduced when a recipient's income from other sources--such as social security benefits--is increased. Thus, receipt by these beneficiaries of the annual social security inflation increase can trigger offsetting reductions in their food, medical, and other benefit aid.

The extent to which public assistance benefits are reduced varies according to (1) program rules, (2) family or household size, and (3) resident State and locality. Such benefit reductions are generally cumulative so that the more public assistance programs a social security recipient participates in, the greater will be the total offsetting reductions.

WHY THE REVIEW WAS MADE

At Senator Inouye's request, we examined whether some social security retirees in Hawaii might be worse off or no better off after receiving an increase specifically designed to help them cope with inflation.

OBJECTIVE, SCOPE, AND METHODOLOGY

As agreed with Senator Inouye's office, we analyzed (1) the manner and degree to which the social security increases cause offsetting benefit reductions in the medicaid, food stamp, and housing assistance programs for retired persons in Hawaii and (2) the estimated numbers of persons in Hawaii and nationally who might be similarly affected.

Social security retirees also participate in public assistance programs, other than those we analyzed, that have similar provisions regarding reduction in benefits due to increased income. However, the extent to which similar effects are experienced by retirees participating in those programs was not analyzed. Other programs are listed in appendix I. (See p. 32.)

At present, information is not available, at either the Federal or State level, about the actual numbers of persons--and their benefits and other income--who participate in different combinations of social security, medicaid, food stamps, and housing assistance programs over the period. Thus, analysis of recipients' actual experiences was not feasible. As an alternative, we simulated the net financial effects of the social security benefit increases on the incomes of retired Hawaii couples and individuals who, assumedly, (1) received the average social security retirement payment in Hawaii as their sole cash income and (2) participated in different combinations of three public assistance programs. Our results reflect the specific effects on the simulated case circumstances only, and not effects on any specific elderly American, or on all households in Hawaii or nationally which might be participating in the same program combinations under different personal circumstances.

We measured the increase's net financial effect by focusing on changes in a recipient's monthly remaining discretionary income. We defined such income as that left over for all other needs after a recipient made necessary food, shelter, and medical payments--as allowed for, and defined by, applicable public assistance program benefit determination standards. To gauge the effect of the 1980 and 1981 social security benefit increases on recipients' purchasing power, we measured changes in their discretionary remaining income in real terms both before and after the social security increases. That is, we adjusted remaining income amounts for inflation using the same CPI rate that was used for the social security increases.

Because several significant changes to public assistance programs were adopted during our study, we also looked at their likely effects on retirees.

We made our review in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." In preparing our report, we interviewed officials of State and Federal agencies with responsibility for the programs involved and reviewed pertinent agency data as well as consulted with nongovernment technical experts. This study's methodology was discussed with--and concurred in by--analysts from several agencies, including the Social Security Administration (SSA), the Health Care Financing Administration, the Department of Agriculture's Food and Nutrition Service, BLS, the Department of Housing and Urban Development (HUD), and the Congressional Research Service. (For more details about our analysis' methodology, see app. II, p. 33.)

CHAPTER 2

SOCIAL SECURITY INCREASE CAN

TRIGGER SUBSTANTIAL REDUCTIONS IN

RETIREES' OTHER BENEFITS

Our analysis showed that the July 1980 social security increase--although intended to protect social security benefits from erosion due to inflation--may have triggered losses in other program benefits so that some retired Hawaiians experienced declines in real discretionary purchasing power. In some cases, beneficiaries would have been better off not having received the increase. Information is not available about how many and to what extent Hawaii retirees were affected. But we know that 9,426 Hawaii households received social security in some combination with these other program benefits and thus may have experienced offsetting benefit losses triggered by the increase.

NUMBER OF MULTIPROGRAM PARTICIPANTS IN HAWAII

In 1980, an estimated 67,800 households in Hawaii were receiving social security benefits. At our request, Hawaii State officials compiled a special tabulation of the number of households participating in different combinations of social security, medicaid, food stamp, and housing assistance programs. A small proportion of these households, which cannot be precisely determined from the data, received disability or survivors, as opposed to retirement benefits. But the benefit adjustments and offsetting effects on public assistance benefits would be similarly applicable to these households. (For more details, see app. II.) Also the number of households participating only in social security and housing assistance programs was not available in Hawaii, so we projected an estimate based on data obtained from HUD.

The numbers of households in Hawaii participating in the different combinations of these programs in September 1980 were as follows:

	Social security	Social security and medicaid	Social security and food stamps	Social seucrity, medicaid, and food stamps	Total
In assisted housing (note a)	413	272	291	399	1,375
Not in assisted housing	(b)	4,534	1,537	1,980	8,051
Total	413	4,806	1,828	2,379	9,426

Number/percent in medicaid	7,185/76
Number/percent in food stamps	4,207/45
Number/percent in assisted housing	1,375/15

a/Includes households in both Low Rent Public Housing and Section 8 Lower Income Housing Assistance. (See app. II for methodological implications.)

b/Not applicable; not participating in any of these public assistance programs.

The 9,426 households participating in combinations of the four programs in 1980 represented about 14 percent of the total social security benefit-receiving households in Hawaii.

INDIVIDUAL RETIREE'S ESTIMATED MONTHLY INCOME AND EXPENSES BEFORE THE JULY 1980 INCREASE

The average monthly social security benefit for a retired Hawaii worker in December 1979 was $292.32. This amount was below the 1979 official poverty line for individuals. Since persons with adjusted incomes below the poverty line qualify for food stamps, an individual retiree was eligible to receive--on the average during the year previous to the increase--an additional $29 worth of food stamps per month.

As a social security beneficiary, the retiree was eligible for coverage under the medicare program, which pays for hospital and 80 percent of medical bills after the retiree has paid for premiums, coinsurance, and deductibles out of pocket. Because of this low income, however, the retiree was eligible to have those out-of-pocket medical expenses paid for under the "medically needy" option of the medicaid program, which is jointly financed by the Federal and State governments. 1/

Again, because of this low income, the retiree was eligible for a rent subsidy under the Federal housing assistance programs. In such programs, tenant rent payments were fixed at a maximum of 25 percent of adjusted income with the remainder of the rent being paid by the Government. In such cases, the retiree's rent would have been $65.77 including utilities. Assuming that basic telephone service, which cost $11.40, was a necessity (it is considered as such in the food stamp program), total shelter expenses were $77.17.

1/Hawaii is one of 34 States (in which about two-thirds of all social security beneficiaries live) that have elected to include the medically needy option in their State medicaid programs. Medically needy persons, for medicaid purposes in our report, are retirees whose incomes are too large to qualify for Supplemental Security Income (SSI) cash assistance, but not high enough to cover their medical expenses. These States may set the income eligibility level for the medically needy variously, but no higher than the federally prescribed maximum of 133 percent of State Aid to Families with Dependent Children payment levels. Income above the medically needy level must be "spent down" on medical care in order to qualify for medical assistance in paying remaining medical bills.

Most medicaid recipients, including some social security recipients, are not medically needy but are "categorically needy" by virtue of their qualifying for cash asssistance. However, according to an estimate recently prepared for the Congressional Budget Office using a simulation model developed for the Department of Health and Human Services, there were about 760,000 noninstitutionalized, non-SSI-recipient persons nationwide who participated in the medicaid program on a medically needy "spenddown" basis in 1979.

Persons with cash income equivalent to average social security retirement benefits generally do not qualify for cash assistance, and thus may receive medicaid assistance only under the medically needy option. However, under the provisions of Public Law 94-566, persons who received SSI cash benefits in addition to social security benefits--and therefore qualified automatically to receive medicaid--may not lose this automatic eligibility as a result of social security increases after 1977 that disqualified them for SSI.

The retiree's estimated average monthly food expenses, using the U.S. Department of Agriculture's Thrifty Food Plan for a one-person family in Hawaii (which represents an average amount needed monthly to purchase a low-cost, adequately nutritious diet and which is used as the basis for calculating food stamp benefits), are $84.50. 1/

REMAINING DISCRETIONARY INCOME BEFORE THE INCREASE

An individual retiree's estimated total monthly income and expenses for basic necessities, then, in the year before the July 1980 social security increase, were as follows:

Income:	
Social security benefit	$292.32
Food stamps	29.00
Total	321.32
Expenses (basic necessities):	
Medical	0.00
Shelter	77.17
Food	84.50
Total	161.67
Remaining discretionary income	$159.65

As illustrated, after paying for basic necessities in amounts allowed for and specified by applicable program standards, an individual retiree who was in assisted housing had $159.65 of income remaining for discretionary expenses, such as transportation, clothing, food over and above the Thrifty Food Plan allowance, laundry, personal care items, noncovered medical needs, furnishings, entertainment, gifts, and other living expense items.

EFFECT OF THE JULY 1980 SOCIAL SECURITY INCREASE

In June 1980, the social security benefit was adjusted by 14.3 percent. An individual retired Hawaii worker's monthly check in July 1980, and for the year thereafter, was increased by $41.80

1/The Thrifty Food Plan is based on the general eating patterns of low-income households, modified to meet recommended dietary allowances set by the National Academy of Sciences - National Research Council. Because of the Plan's strict budgetary limitations, some nutritionists question whether persons without nutritional training can meet the Plan's standards, especially in areas of high food prices.

to a total of $334.12. The increase had the following effects on other program benefits:

Medicaid--The medically needy income level in Hawaii is $300 per month for an individual. The retiree's then-current $334.12 social security income would have rendered the retiree no longer automatically eligible for having uninsured medical expenses paid for by the medicaid program. Rather, the retiree would have to "spend down" $34.12 a month out of pocket for any medical expenses before medicaid would pay for uninsured medical costs of items covered under medicaid--including, in Hawaii, the purchase of medicare, Part B, Supplemental Medical Insurance coverage. (Coincidentally, the $34.12 monthly spend-down amount in this case approximates the 1979 BLS Lower Budget medical expenditures amount for retired individuals. See p. 11.)

Housing assistance--The individual retiree's rent payment would have increased by $3.38 a month, for a total shelter expense of $80.55 a month. This results from applying the public housing formula to the increased social security income, which is more fully discussed in chapter 4.

Food stamps--The retiree's increased social security income would have triggered a reduction in average monthly food stamp benefits of about $4. This is because the food stamp benefit formula was also adjusted for inflation--but differently than social security--in both July 1980 and January 1981, resulting in a monthly average benefit during the July 1980 to July 1981 period of $25.

At the same time, food expenses, calculated as before using the Thrifty Food Plan, increased during the same period to a monthly average of $90.50.

REMAINING DISCRETIONARY INCOME AFTER THE INCREASE

The individual retiree's total monthly income, expenditures for basic necessities, and remaining discretionary income (both before and after receiving the social security increase) are shown below:

	Before increase	After increase
Income:		
Social security benefit	$292.32	$334.12
Food stamps	29.00	25.00
Total	321.32	359.12
Expenses (basic necessities):		
Medical	0.00	34.12
Shelter	77.17	80.55
Food	84.50	90.50
Total	161.67	205.17
Remaining discretionary income	$159.65	$153.95

As shown, the individual retiree's monthly discretionary income decreased by $5.70, or 3.6 percent, after receiving the July 1980 social security increase. As discussed on pages 9 and 10, because of the effect of cash income level on other program benefits, the individual would have been better off without the social security increase.

INCOME LOSS GREATER IN TERMS OF REAL DISCRETIONARY PURCHASING POWER

The individual retiree's resulting decrease in monthly discretionary income--following the increase in his social security income--was actually greater when viewed in terms of the real purchasing power of his remaining income. Thus, the $159.95 of remaining income would not purchase as much as the same amount of money would have purchased in the previous year--because of inflation. In fact, it was inflation that prompted the 14.3-percent social security increase in the first place.

Therefore, if the real purchasing power of the individual retiree's (pre-increase) monthly discretionary income was to be maintained, that amount, $159.65, would have to increase by 14.3 percent, or by $22.83, for a total $182.48. Rather, as illustrated above, the remaining discretionary income (after the increase) actually decreased to $153.95.

Viewed differently, the remaining $153.95 income after the social security increase was actually worth only $134.69 in real--i.e., pre-increase--purchasing power. As a result, the purchasing power of the individual retiree's remaining discretionary income actually declined (in terms of pre-increase dollars) as follows:

Before social security increase	After social security increase	Change (percent)
$159.65	$134.69	-$24.96 (-15.6%)

DISCRETIONARY PURCHASING POWER LOSS GREATER THAN IF INCREASE NOT RECEIVED

If the retiree had not received the July 1980 increase, his or her monthly social security benefit during the following year would have remained at $292.32, and the average monthly food stamp benefit would have increased to $38.00, for an average total monthly income of $330.32. This social security benefit would still have been low enough to qualify the retiree for medicaid payment of all covered medical bills. Shelter costs in public housing would have remained at $77.17. Average monthly food costs, according to the Thrifty Food Plan, would have increased to $90.50. Average total monthly expenses for basic necessities would thus be $167.67. This would mean that the retiree's average monthly remaining discretionary income for the year following the July 1980 increase--assuming he or she had not received the inflation adjustment--would be $162.65. Adjusted for the 14.3-percent inflation factor used in social security benefits, this $162.65 would equal $142.30 of purchasing power in terms of the previous year's dollars.

A comparison of the two effects--i.e., the effect of having received the inflation adjustment versus the effect if it had not been received--is shown below:

	With increase	Without increase
Income:		
Social security benefit	$334.12	$292.32
Food stamps	25.00	38.00
Total	359.12	330.32
Expenses (basic necessities):		
Medical	34.12	0.00
Shelter	80.55	77.17
Food	90.50	90.50
Total	205.17	167.67
Remaining discretionary income	$153.95	$162.65
Purchasing power equivalent (in previous year's dollars)	$134.69	$142.30
Change in purchasing power of remaining discretionary income from previous year's level of $159.65	-$24.96 (-15.6%)	-$17.35 (-10.9%)

As shown, the purchasing power of the retiree's remaining discretionary income, after having paid for basic necessities, would have declined by only 10.9 percent if he or she had not received the July 1980 increase. This compares with the 15.6-percent loss that resulted from receiving the increase.

CHANGES IN DISCRETIONARY PURCHASING POWER FOR BOTH INDIVIDUALS AND COUPLES PARTICIPATING IN VARIOUS PROGRAM COMBINATIONS

To provide a more complete picture of the social security increase's possible effects, we calculated the effects for couples and individuals who participated in six different combinations of the public housing and medicaid programs. Again, we assumed average social security payments as their sole cash income, which would qualify them for food stamps in all cases.

While the average monthly social security benefit for an individual retired Hawaii worker in December 1979 was $292.32, the average benefit for couples--a retired worker with spouse--was $450.86. These incomes qualified the retirees for food stamps worth $29.00 for an individual retiree and $56.50 for a couple.

The large majority of retirees (see p. 4) do not live in assisted housing. Because no actual data on average housing expenses in Hawaii for these low-income retirees were available, we estimated their shelter costs using HUD's Annual Housing Survey for the elderly in the Honolulu area. The 1979 estimated average monthly shelter cost, including telephone, was $171.83 for an elderly individual and $247.23 for a couple.

For persons participating in medicaid, we assumed they had to "spend down" to--or defray any medical expenses above--the medically needy income level in Hawaii. This level was $300 per month for individuals and $400 per month for couples for both before and after the increase. For purposes of our analysis we assumed that persons not participating in the medicaid program (either before or after the increase) enjoyed excellent health and had minimal medical expenses.

For these persons we assumed, using the lower of the food stamp and assisted housing program allowances for medical expenses, that they had experienced up to, but not beyond, the amount that would qualify them for a medical expense deduction from gross income under the assisted housing programs. These amounts in the year before the increase were $13.53 per month for couples and $8.77 for individuals (see p. 23 for further explanation of this provision).

These medical cost assumptions--for those who did and did not participate in medicaid--represent two rather extreme points in the broad range of medical costs that are normally experienced by different persons. Recognizing this, we also calculated the effects of the social security increase assuming a third, or intermediate, level of medical expenses. The intermediate level we used was the amount used in the BLS Lower Budget for a retired couple for medical expenses. These amounts in 1979 were $70.62 per month for couples and $35.33 for individuals.

Thus, on the basis of our assumptions about food, shelter, and medical expenses and the receipt of average social security benefits in Hawaii by couples and individuals participating in various combinations of the food stamp, medicaid, and housing assistance programs, the following table shows changes in real monthly discretionary income resulting from the July 1980 social security increase. (The after-increase figures have been adjusted, or deflated, by the CPI used for the social security increase to reflect actual purchasing power.)

Individuals

	Receiving medicaid			Not receiving medicaid			Intermediate medical expense assumption		
	Before	After	Change	Before	After	Change	Before	After	Change
In assisted housing	$159.65	$134.69	-$24.96 (-15.6%)	$159.65	$150.49	-$ 9.16 (-5.7%)	$159.65	$134.69	-$24.96 (-15.6%)
Not in assisted housing	$87.99	$57.06	-$30.93 (-35.2%)	$87.99	$77.71	-$10.28 (-11.7%)	$87.99	$57.06	$30.93 (-35.2%)

Couples

	Receiving medicaid			Not receiving medicaid			Intermediate medical expense assumption		
	Before	After	Change	Before	After	Change	Before	After	Change
In assisted housing	$197.99	$176.57	-$21.42 -(10.8%)	$220.99	$221.36	$+.37 (+0.2%)	$197.99	$185.51	-$12.48 (-6.3%)
Not in assisted housing	$76.77	$41.23	-$25.91 (-46.3%)	$109.60	$107.81	$ -1.79 (- 1.6%)	$76.77	$62.48	-$14.29 (-18.6%)

a/The "before" and "after" discretionary income figures were calculated the same way as those shown on pages 6 and 8. That is, from each recipient case's total social security and food stamp (see p. 4) benefit income, we subtracted: (1) food costs (using Thrifty Food Plan figures (see p. 6)); (2) shelter costs (using the Low-Rent Public Housing formula (see p. 5) or Annual Housing Survey figures (see p. 11)); and (3) medical costs, (using three medical expenditure assumptions (see p. 11) and the Hawaii medically needy income limit (see pp. 5 and 11)). We then adjusted the "after" figures for inflation--in the same way as shown on page 9--using the CPI appropriate for each period. (Also see app. II, p. 34.)

b/The "before" discretionary income figures for individuals are the same under all medical expense assumptions because the social security benefit was less than the medically needy income limit--hence, none had out-of-pocket medical costs. Couples, however, had "before" (social security benefit) incomes above the medically needy limit, and hence had varying out-of-pocket costs depending on our medical expense assumptions.

As shown, in all but 1 case, the June 1980 social security increase resulted in retirees experiencing decreases in their real discretionary purchasing power, and in 8 of the 12 cases, they experienced substantial (greater than 10 percent) decreases.

CHAPTER 3

THE 1981 INCREASE, TOGETHER WITH RECENT PUBLIC ASSISTANCE PROGRAM CHANGES, MAY CAUSE FURTHER REDUCTIONS IN DISCRETIONARY PURCHASING POWER IN HAWAII AND NATIONALLY

In the same way that we analyzed the July 1980 social security increase's effects, we simulated the effects of the most recent--July 1981--increase. Considering recently adopted changes to the public assistance programs, we found that further reductions in recipients' discretionary purchasing power likely will occur.

Furthermore, on a national scale, in 1979--according to SSA data--about 16 percent (or 3,571,000) of the total social security recipient households were participating in various combinations of the food stamp, medicaid, and assisted housing programs. Many households may experience similar reductions, but such reductions would vary greatly. A State-by-State analysis of the differing public assistance program rules and standards within the States would be necessary to determine the losses in other program benefits triggered by social security increases. Such an analysis was beyond the scope of our work.

EFFECTS OF THE JULY 1981 SOCIAL SECURITY INCREASE

In June 1981, the social security benefit was increased by 11.2 percent. The average individual Hawaii retiree's check in July 1981 was increased by $37.42 to $371.54 and a retired couple's check by $57.72 to $573.05.

During 1981, several changes affecting the eligibility and benefit provisions of the housing assistance and food stamp programs were enacted. These were:

1. Tenant rental payments, under assisted housing, were increased from 25 to 30 percent of adjusted income. 1/

2. Inflation adjustments to the food stamp program's eligibility and benefit formulas--provided for by the 1977 Food Stamp Act Amendments--were placed in abeyance. In addition, the medically needy income levels for the medicaid program in Hawaii were not adjusted but were continued at the previous year's levels for both individuals and couples.

Thus, building upon the simulated cases in chapter 2, and considering the 1981 program changes, we estimated the effects of the July 1981 increase on Hawaii retirees' other benefits and remaining real discretionary purchasing power as follows:

Individuals

	Receiving medicaid			Not receiving medicaid			Intermediate medical expense assumption		
	Before	After	Change	Before	After	Change	Before	After	Change
In assisted housing	$134.69	$114.73	$-19.96 (-14.8%)	$150.49	$139.90	$-10.59 (-7.0%)	$134.69	$122.32	$-13.37 (-9.9%)
Not in assisted housing	$57.06	$37.52	$-19.54 (-34.2%)	$ 77.71	$76.38	$- 1.33 (-1.7%)	$57.06	$52.18	$- 4.88 (- 8.6%)

Couples

	Receiving medicaid			Not receiving medicaid			Intermediate medical expense assumption		
	Before	After	Change	Before	After	Change	Before	After	Change
In assisted housing	$176.57	$150.38	$-26.16 (-14.8%)	$221.36	$205.48	$-15.88 (-7.2%)	$185.51	$177.36	$- 8.15 (-4.4%)
Not in assisted housing	$41.23	$ 15.02	$-26.21 (-63.6%)	$107.81	$105.39	$- 2.42 (-2.2%)	$62.48	$60.83	$- 1.65 (-2.6%)

(See note a to chart on p. 12.)

1/On May 4, 1982, after our report had been prepared and agency comments on it had been received, the Secretary of HUD issued an interim rule under the discretionary authority provided in section 322 of the Omnibus Budget Reconciliation Act of 1981 that will phase in this increase for existing tenants in 1-percent annual increments over a 5-year period. A relatively small portion of the discretionary purchasing power losses cited in our report for these persons would thus not take place in the first year, but would be spread over the 5 years. For new tenants, however, the entire increase would become effective immediately.

As indicated, all recipients under the simulated cases would experience further losses in their discretionary purchasing power after the July 1981 social security increase.

COMBINED EFFECTS OF THE 1980 AND 1981 INCREASES

To assess--for the simulated cases--the combined effects of the 1980 and 1981 social security increases on Hawaii retirees' discretionary purchasing power, we converted the post-1981-increase amounts to their pre-1980-increase purchasing power equivalents. In other words, we assessed whether any increases in the purchasing power of pre-1980-increase incomes had resulted from the 1980 and 1981 social security benefit increases. In so doing, we deflated the post-1981-increase amounts by 27.1 percent--which was the compounded, CPI-based, social security increase over the period. Thus, the two increases' net effect on pre-1980-increase discretionary purchasing power was as follows:

Individuals

	Receiving medicaid			Not receiving medicaid			Intermediate medical expense assumption		
	Before	After	Change	Before	After	Change	Before	After	Change
In assisted housing	$159.65	$114.73	$-44.92 (-28.1%)	$159.65	$139.90	$-19.75 (-12.4%)	$159.65	$121.32	$-38.33 (-24.0%)
Not in assisted housing	$87.99	$37.52	$-50.74 (-57.4%)	$ 87.99	$ 76.38	$-11.61 (-13.1%)	$ 87.99	$52.18	$-36.05 (-40.2%)

Couples

	Receiving medicaid			Not receiving medicaid			Intermediate medical expense assumption		
	Before	After	Change	Before	After	Change	Before	After	Change
In assisted housing	$197.99	$150.38	$-47.61 (-24.0%)	$220.99	$205.48	$-15.51 (-7.0%)	$197.99	$177.36	$-20.63 (-10.4%)
Not in assisted housing	$76.77	$15.02	$-61.75 (-80.4%)	$109.60	$105.39	$-4.21 (-3.8%)	$ 76.77	$ 60.83	$-15.94 (-20.8%)

(See notes a and b to chart on p. 12.)

As indicated, except for retired couples not receiving medical assistance, each simulated case showed substantial losses (exceeding 10 percent) in discretionary purchasing power as a result of the two increases. Such purchasing power losses averaged 26.8 percent among the 12 cases, but varied widely from 3.8 to 80.4 percent.

DISCRETIONARY PURCHASING POWER LOSSES OF SOME RETIREES GREATER THAN IF INCREASES NOT RECEIVED

We calculated for individuals and couples, in each of the program combinations, what the decline in discretionary purchasing power would have been if they had not received the two social security increases. Such purchasing power effects of receiving the increases, versus not receiving them, are shown below:

Comparison of Discretionary Purchasing Power Losses
With and Without Social Security Increases
(Percent changes in purchasing power)

	With increases	Without increases
Individuals:		
Receiving medicaid but not in assisted housing	-57.4	-40.2
Receiving medicaid and in assisted housing	-28.1	-23.1
Intermediate medical expenses but not in assisted housing	-40.7	-40.2
Intermediate medical expenses and in assisted housing	-24.0	-23.1
Not receiving medicaid and not in assisted housing	-13.1	-40.2
Not receiving medicaid but in assisted housing	-12.4	-23.1
Couples:		
Receiving medicaid but not in assisted housing	-80.4	-61.0
Receiving medicaid and in assisted housing	-24.0	-25.0
Intermediate medical expenses but not in assisted housing	-20.8	-61.0
Intermediate medical expenses and in assisted housing	-10.4	-25.0
Not receiving medicaid and not in assisted housing	-3.8	-49.4
Not receiving medicaid but in assisted housing	-7.0	-20.8
Average	-26.8	-34.1

As shown above--where the "with-increase" figures exceed the "without-increase" figures--retirees would have been better off financially if they had not received the July 1980 and 1981 increases. But in the other cases, although serious losses in discretionary purchasing power may have occurred, they would have been worse if the increases had not been received. Generally, those who were worse off than if they had not received the increases were those with high or intermediate medical costs.

NUMBER OF SOCIAL SECURITY/ PUBLIC ASSISTANCE HOUSEHOLDS NATIONALLY

The Federal Government does not currently maintain a data base which identifies the number of social security recipients who participate in various combinations of public assistance programs. However, in 1978, SSA's Office of Research and Statistics initiated a project--the Survey of Income and Program Participation (SIPP)--to develop a nationwide sample of such multiprogram participation by the noninstitutionalized civilian population. The sample, although not valid for projecting multiprogram participation at State levels, is valid for national estimates.

We requested and obtained a specially tabulated SIPP estimate of the number of households nationally which participate in various combinations of the social security, food stamp, medicaid, and housing assistance programs. Like the Hawaiian tabulation (see p. 4), a small proportion received disability or survivors, as opposed to retirement benefits, but the benefit adjustments and offsetting effects would be similarly applicable. For 1979, the most recent estimates available, SSA reported to us the following:

	Social Security only	Social Security plus medicaid	Social Security plus food stamps	Social security plus medicaid and food stamps	Total
	(000 omitted)				
Receiving housing assistance (note a)	523	97	42	124	786
Not receiving housing assistance	(b)	1,337	516	932	2,785
Total	523	1,434	558	1,056	3,571
Number/percent in medicaid			2,490/70		
Number/percent in food stamps			1,614/45		
Number/percent in assisted housing			786/22		

a/Also includes households in both Low-Rent Public Housing and Section 8 Lower Income Housing Assistance. See appendix II for methodological implications.

b/Not applicable; not participating in any of these public assistance programs.

The 3,571,000 households represent about 16 percent of the total 21,905,000 social security recipient households in the United States in 1979. Although public assistance program rules and standards vary considerably among the States, social security recipients participating in the public assistance programs shown in the table could experience offsetting reductions in such program benefits as a result of increases in their social security income. The precise extent and distribution of such reductions, and their net financial effects upon retirees' incomes, cannot be estimated without a State-by-State analysis of program rules and standards.

The SIPP data--compared to data provided to us by Hawaiian officials (see p. 4)--indicate general similarities in the distribution of social security recipients among the subject public assistance programs. But there are also differences. For example, a higher proportion of social security recipients participate in the other programs nationally (16 percent) than in Hawaii (14 percent). Also, a higher proportion participate in assisted housing programs nationally (22 percent) than in Hawaii (15 percent), while a lower percentage participate in the medicaid program nationally (70 percent) than in Hawaii (76 percent).

Possible reasons for such variations include differences in

--methods used to prepare the two tabulations,

--demographic patterns from State to State,

--program eligibility and benefit standards among the States, and

--relationships of average social security benefit levels to program standards in different States.

In our opinion, however, the SIPP and Hawaii data are sufficient to conclude that significant numbers of social security beneficiaries--both nationally and in Hawaii--also participate in means-tested public assistance programs and thus may experience offsetting benefit losses when their social security income is increased.

CHAPTER 4

PROGRAM REQUIREMENTS CAUSE GREATER LOSSES

FOR SOME RECIPIENTS THAN FOR OTHERS

We analyzed--using the simulated cases--the recipients in the several combinations of the social security, medicaid, and housing assistance programs to determine which recipients had the greatest losses, and why. (In all simulated cases, income was low enough to qualify for food stamps.)

Generally, irrespective of the other programs in which they participated, we found that:

--Persons not participating in housing assistance programs had higher loss rates than those participating.

--Individual retirees generally experienced higher loss rates than retired couples.

--Persons participating in the medicaid program under the medically needy option had higher discretionary purchasing power loss rates than those not participating, and this was the single most influential factor causing losses in discretionary purchasing power. In this regard, as noted in the footnote on page 5, about 760,000 predominantly elderly persons participated in the medicaid program nationally on this basis in 1979. These people would have been subject to losses along the lines discussed in this report. 1/

MEDICAID PARTICIPANTS HAVE GREATER LOSSES

Using the simulated cases from chapters 2 and 3, we compared the discretionary purchasing power changes--after both social security increases--experienced by retirees who were and were not participating in medicaid.

The resulting losses in recipient discretionary purchasing power are as follows:

1/We obtained this information in response to the Office of Management and Budget's (OMB's) comments, which questioned the significance of the medicaid effect. This matter is fully discussed in our evaluation of agency comments at the end of the next chapter.

	Not receiving medicaid (i.e., low medical expense)	Intermediate medical expense	Receiving medicaid (i.e., high medical expenses)
	(percent)		
Individual:			
In assisted housing	-12.4	-24.0	-28.1
Not in assisted housing	-13.1	-40.7	-57.4
Couple:			
In assisted housing	-7.0	-10.4	-24.0
Not in assisted housing	-3.8	-20.8	-80.4
Average	-9.1	-24.0	-47.5

As shown, retirees participating in the medicaid program under the medically needy option had consistently higher discretionary purchasing power loss rates than those not participating--regardless of the other programs in which they participated. We believe these results illustrate the effects of certain features of Hawaii's medicaid program--and certain of medicaid's federally mandated features as well. These include the program's (1) dollar-for-dollar benefit loss rate, (2) lower income eligibility standard than the other programs, and (3) nonadjustment for inflation of the medically needy income level.

Federal medicaid provisions require that in States like Hawaii--which have medicaid programs for the medically needy--recipients must spend down their income for medical costs until such income reaches the State-established medically needy level. A dollar increase in their social security income for recipients in a "spend-down" status, therefore, increases by a dollar the amount they must pay for their medical costs before receiving medicaid assistance. In gaining one social security dollar, but losing one medical expense dollar, Hawaii medically needy recipients, thus, experience a 100-percent benefit loss rate under the medicaid program.

In contrast, both the food stamp and assisted housing programs have benefit loss rates approximating 30 percent. Generally, a dollar increase in social security income results in a loss in food stamp benefits, or an increase in rent, of about 30 cents.

The Hawaii medicaid program also uses lower income eligibility standards than those used in the food stamp and assisted housing programs. Medically needy income levels in Hawaii are $300 for individuals and $400 for couples. In effect, these amounts represent allowable remaining income (after out-of-pocket medical expenses) which individuals and couples have for their housing, food, and other expenses. But the food stamp and assisted housing programs allow higher amounts for such expenses when determining a person's eligibility. In Hawaii amounts allowed for food, shelter, and other expenses under the food stamp and assisted housing programs for persons with average social security income at the end of the period studied averaged about $389 per month for individuals and $595 for couples. These amounts exceeded the Hawaii medically needy income levels by $89 per month for individuals and $195 for couples.

The Hawaii medically needy eligibility income level was not adjusted for inflation during the last two social security increase periods. Thus, the social security increases correspondingly increased the spend-down amounts recipients had to pay for medical costs. In contrast, the food stamp program's eligibility and benefit formula factors were adjusted--although at various times during the increase period and at lower rates than social security benefits. In further contrast, assisted housing programs are designed to adjust automatically for inflation. Because tenants pay a fixed proportion of their adjusted incomes for rent, that amount increases--as social security income increases--at a rate equal to the rate of the inflation adjustment.

Lastly, participation in the medicaid program was the most significant factor influencing purchasing power losses. As shown in the table on page 21, the average loss rate for persons participating in medicaid under the medically needy option was over five times as high as for those not participating, with the difference between the two being 38.4 percentage points (47.5 percent versus 9.1 percent). This was the largest such ratio or range associated with any single factor.

HOUSING ASSISTANCE RECIPIENTS LOSE LESS THAN THOSE NOT RECEIVING HOUSING ASSISTANCE

Our analysis also showed that most social security recipients in assisted housing would experience significantly lower discretionary purchasing power losses than those not in assisted housing. Patterns of such losses are as follows:

	In assisted housing	Not in assisted housing
	(percent)	
Individuals, receiving medicaid	-28.1	-57.4
Couples, receiving medicaid	-24.0	-80.4
Individuals, intermediate medical expenses	-24.0	-40.7
Couples, intermediate medical expenses	-10.4	-20.8
Individuals, not receiving medicaid	-12.4	-13.1
Couples, not receiving medicaid	-7.0	-3.8
Average	-17.7	-36.0

As shown, the discretionary purchasing power of persons receiving housing assistance decreased, on average, at only about half the rate of those not receiving public housing. One reason is that assisted housing, for benefit computation purposes, deducts from a person's gross income all medical expenses exceeding 3 percent of his or her gross income to arrive at eligibility income. Then, 30 percent of eligibility income is paid by the housing assistance recipient for rent.

Because, as assumed in our simulations, private landlords do not reduce rents to help offset, for example, a tenant's medical costs, persons not in assisted housing experienced significantly higher losses in their monthly discretionary incomes and resulting purchasing power. However, (as shown) in the case of couples with low medical expenses, the public housing advantage was offset by the recent increase (from 25 to 30 percent) in the proportion of participating recipients' income devoted to rent.

INDIVIDUALS ALSO TEND TO LOSE MORE THAN COUPLES

Our analysis showed that with the exception of one type of case--persons receiving medicaid but not assisted housing--the average discretionary purchasing power loss rate for individuals was greater than for couples, as follows:

	Individuals	Couples
	(percent)	
Receiving medicaid but not assisted housing	-57.4	-80.4
Receiving medicaid and assisted housing	-28.1	-24.0
Intermediate medical expenses, not in assisted housing	-40.7	-20.8
Intermediate medicaid expenses, in assisted housing	-24.0	-10.4
Not receiving medicaid or in assisted housing	-13.1	-3.8
Not receiving medicaid, but in assisted housing	-12.4	-7.0
Average	-29.3	-24.4

Reasons for greater discretionary purchasing power losses by individual retirees include (1) their average social security benefits are about 65 percent of couples' average benefits, while their shelter costs commonly are about 70 percent of couples' costs and (2) as a result of social security increases, the proportion of income that individuals had to spend for medical expenses increased more than for couples. The proportion of income devoted to medical costs grew by 10.3 percentage points for individuals during the period, while it grew by only 6.8 percentage points for couples. This is because, as a result of the increases, individuals' incomes were raised above the medically needy income level and they were no longer eligible to have all of their covered medical expenses paid by the medicaid program.

"WORSE-LOSS" CASES

Our simulations of the social security increases' effects on Hawaii recipients' purchasing power indicate that:

1. Persons receiving medicaid under the medically needy option (high medical costs) had higher loss rates than persons not receiving medicaid (low or intermediate medical expenses).

2. Persons not in assisted housing had higher loss rates than those in assisted housing.

3. Individual retirees generally had higher loss rates than couples.

These effects, generally, are cumulative. Thus, recipients with higher loss rates would be those who were receiving medicaid but not in assisted housing. Further, individuals had even higher loss rates than couples in nearly all these program combinations.

CHAPTER 5

CONCLUSIONS, MATTERS FOR CONSIDERATION BY THE CONGRESS, AND AGENCY COMMENTS AND OUR EVALUATION

CONCLUSIONS

Despite annual increases designed to protect social security benefits from inflation, some retired Hawaiians may be worse off after receiving the increases than before. For an estimated 9,426 households in Hawaii, and 3,571,000 nationally, social security benefit increases may trigger, in varying degrees, offsetting reductions in their food stamp, medicaid, and housing assistance benefits.

Furthermore, it appears that:

1. Hawaii retirees receiving medicaid under the medically needy option experience higher discretionary purchasing power loss rates than those not receiving medicaid--largely because of the program's dollar-for-dollar benefit reduction rate, its low medically needy income limit compared to the other programs' eligibility limits, and the lack of adjustment for inflation of this limit during the social security increase periods. This was the largest factor influencing loss rates.

2. Retirees in assisted housing experience lower loss rates than those not receiving such assistance, because the assisted housing programs reduce participating recipients' rents by a portion of their medical expenses.

3. Individuals experience greater loss rates than couples, because the proportion of an individual retiree's income which must be devoted to medical costs increases more--after the social security increase--than it does for couples, and individuals spend a higher proportion of income on shelter costs than do couples.

4. These factors generally are cumulative in their effects.

Congressional intent is clear with regard to protecting, through annual benefit adjustments, the purchasing power of social security benefits. Because the purchasing power of need-based program benefits is not protected to the same degree, if at all, lower income social security recipients who also participate in public assistance programs stand to lose benefits from these programs as social security benefits increase.

Some ways that this result could be mitigated include:

--Indexing the medicaid medically needy eligibility income level so that it rises with social security benefits and limits increases in spend-down amounts.

--Eliminating any absolute medically needy income threshhold and adopting for persons at lower income levels a benefit/loss rate(s) for the medicaid program that is less than 100 percent, possibly by limiting medicaid spend down to some fixed or variable proportion of income, so that the general loss rate effect of medical costs is reduced and the disparity in individuals' and couples' loss rates is diminished.

--Adjusting the medicaid eligibility formula to include a standard and an excess shelter cost deduction as in food stamps and housing, so that any disparity between loss rates of those receiving and not receiving housing assistance is reduced.

--Allowing exemption of all or a portion of the social security increase amount when calculating subsequent eligibility and benefits for public assistance programs, which would establish low-income social security beneficiaries as a special class of public assistance recipients.

--Making corresponding changes in the other programs' eligibility and benefit rules as would be necessary to assure that the interaction of different programs' rules produces the intended outcomes.

We have not fully analyzed these approaches with respect to their effects either on different beneficiaries in different combinations of programs or on program costs--which in some cases may be increased. Such an analysis, including the consequent varying effects in different States, would be necessary before being able to adequately judge their relative merits.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Because an indeterminable number of social security retirees, in effect, do not benefit from the full amount of annual social security benefit increases intended to protect the benefits' purchasing power from inflation, the Congress may wish to consider

--the need for better data--such as those that were beginning to be developed by SSA's Survey of Income and Program Participation--on the numbers of persons participating in the social security and public assistance programs so that policymakers can know the effects of benefit increases and changes on different populations,

--further exploring--in other States and for other benefit programs--the nature and extent of purchasing power losses experienced by social security recipients as a result of the annual automatic inflation adjustment, and

--whether measures can and should be taken to deal with such losses.

AGENCY COMMENTS AND OUR EVALUATION

We obtained comments from OMB, HUD, and the Department of Agriculture. The Department of Health and Human Services informed us it had no comments on the report.

The Department of Agriculture agreed with the report's conclusions but said that food stamps should be portrayed as a net food expense factor in our calculations, rather than an income factor. We disagree, viewing food stamps as the functional equivalent of cash income generally, as well as in our analysis, and noting that the Department's recommended change would not alter our reported results.

HUD stated that the report reflects current program policies, but pointed to certain proposed changes in eligibility for housing assistance which might reduce the extent of purchasing power losses shown in our report. However, HUD's comments refer to proposals not yet published, which, in any event, would not have affected our reported results for the benefit increase periods we analyzed. Further, in later discussions, HUD staff informed us of other proposals--not mentioned in its comments--which would more than offset any gains from the proposals HUD did mention, and thus would cause our reported results to be understated.

OMB took exception to our methodology, asserting that (1) our simulated cases are not representative of any elderly American truly in need and (2) our analysis does not support a conclusion that social security inflation increases financially hurt recipients also participating in public assistance programs.

OMB stated that:

"A major methodological problem with the analysis lies in its use of the average social security benefit level without addressing the public assistance program participation of social security recipients at that level. Lacking is the connection between social security benefit level and qualification for need-tested assistance, since most (85 percent) social security recipients have other sources of cash income. Moreover, if the 14 percent (9,426 households) of the other 67,800 social security households in Hawaii that are also receiving other public assistance are from the low end of the social security benefit distribution, then a significantly different result would be obtained.

"For example, based on nationwide data, had social security benefit levels at or below about the 35th percentile for retired workers been used for individuals instead of the average level, the primary factor producing the reported result (spend down to medicaid's medically needy income level) would not have been relevant for individuals."

OMB's comments tend to be self-contradictory. According to SSA data, the 85 percent of social security beneficiaries with other income cited by OMB also includes persons with low benefits. But, OMB's own example of 35th percentile beneficiaries, somewhat inconsistently, does not consider any such income for these beneficiaries. Our use of average benefit levels, on the other hand, tends to take into account the analytical bias that would result if only the social security benefits of persons at the low end of the distribution--with no allowance for their other income--were considered.

It should be noted that individuals at the 35th percentile benefit level in 1979 would need to have had only $56.29 monthly in additional income--and couples only $86.82--to have cash incomes equivalent to the average benefit levels used in our report. According to SSA data, about 81 percent of all elderly beneficiaries who had additional income had more than these amounts.

But, even accepting OMB's nonallowance for any additional income for persons at the 35th percentile, such individuals' discretionary purchasing power would have still declined by an average of 5.8 percent due to losses in food stamp and housing benefits. Moreover, couples would have experienced average losses of 31.2 percent, with some still being worse off than if the increases had not been received. The overall average loss rates for all simulated cases--at OMB's 35th percentile level--would still be about 70 percent of the overall loss rate shown in our report for retirees at the average benefit level, but with couples, instead of individuals, having the higher losses.

Couples fare worse at lower percentile levels because the Hawaii medically needy income limit, as in most spend-down States, is only about a third higher for couples than for individuals, while social security benefits are about 50 percent higher. Medicaid spend-down losses for couples are eliminated only at much lower income levels (equivalent to Hawaii's 25th percentile benefit level), and losses in other benefits would still cause small declines in discretionary purchasing power at those income levels.

We also note that losses and spend-down amounts in other spend-down States may actually tend to be somewhat higher than in Hawaii because, in 26 of the 33 other States, social security benefits are higher in relation to spend-down income limits. For use in its comments, OMB selected the 35th percentile, according to an OMB official, by deducing a 1979 national benefit level percentile (adjusted for later increases) that would be equal to the 1981 $300 Hawaii limit--thereby purporting to eliminate any estimated losses due to retirees having to spend down for their medical expenses. In fact, however, the average of other States' spend-down limits is equivalent to only the 30th percentile of the average benefit distribution for those States. 1/

OMB also stated that:

> "* * * about 5,000 Hawaiian social security recipients receiving SSI are categorically eligible for medicaid and would not have to 'spend-down.' Indeed, the reported results show that without the medicaid effect being activated, social security benefit increases make retirees better off than they would be without the increase."

On page 5, we note that a particular subgroup of retirees--social security beneficiaries also receiving SSI--did not have to spend-down for medical expenses due to their categorical eligibility for medicaid. Further noted on pages 17 and 18 is that beneficiaries for whom our reported medicaid effect was not applicable would not be worse off if they had not received the increase. However (1) such recipients nonetheless would experience offsetting losses in food stamp and housing benefits which our study estimated to cause an average 9.1-percent decline in purchasing power during the period and (2) OMB's 5,000-recipient figure refers to individual beneficiaries rather than households (as used in our report), which may be misleading because it overstates the possible effect.

1/We used averages that were weighted to reflect the social security beneficiary populations in each such State, thus forming a more relevant measuring scale than overall national averages.

Further, as a result of OMB's comments, we obtained estimates of the number of noninstitutionalized, non-SSI-recipient, elderly persons likely to have participated in the medicaid program on a spend-down basis and thus have been affected along the lines shown in this report. These estimates--which we did not independently verify--were recently prepared for the Congressional Budget Office using a simulation model developed for the Department of Health and Human Services. The data indicate there were about 760,000 such persons nationally at the beginning of the period covered by our study. This number--as well as the average per-case spend-down amount--likely may have grown since then due to recent changes in the medicare and medicaid programs (see app. II, p. 35) and the subsequent social security benefit increases discussed in our report.

Finally OMB stated that: "There is no evidence in the draft report that the simulated cases are representative of any elderly American, especially anyone truly in need."

Our report was not intended to address who is "truly needy," but we note that all our simulations refer to cases where retirees' incomes were low enough to qualify them for the need-tested public assistance programs cited. Our simulations were not based on the personal profiles of any particular elderly Americans, but they represent a reasonably broad range of circumstances within which numerous retirees fall. We further note that our study was requested by Senator Inouye (and subsequently, other Members of Congress) based upon their receipt of numerous constituent complaints. We reviewed the personal income and expense profiles of some of these actual cases and found a very close matching with our simulated case results.

Our report suggests that, to more precisely identify how many and which retirees in the cited programs experienced varying degrees of loss, more refined data analysis, such as that developed in SSA's SIPP, would be needed. However, earlier this year funding for the SIPP project was discontinued, and it is unclear whether resources will be committed to perform an update of the 1979 SIPP survey of income and benefits mentioned on page 18.

Where appropriate, we have made changes to the language in the body of the report to clarify issues raised by OMB in its comments. Agency comment letters are in appendix III, page 36.

OTHER PUBLIC ASSISTANCE BENEFITS THAT MAY BE SIMILARLY AFFECTED BY SOCIAL SECURITY INCREASES

Aid to Families with Dependent Children

Section 101 Rent Supplement Program

Section 236 Interest Reduction Payments

Section 202 Housing for the Elderly

Basic Educational Opportunity Grant Program

Supplemental Educational Opportunity Grant Program

National Direct Loan Program

College Work-Study Program

Community Service Employment for Older Americans

Title XX Social Services (depending on new State rules for this now-block-granted program)

State General Assistance

SUPPLEMENTAL NOTES ON METHODOLOGY

Because our analysis was based on simulated recipient cases, rather than actual cases, certain cautions should be exercised in interpreting results. For instance, the results reflect the specific effects on the simulated case circumstances only, and not effects on any specific elderly American, or on all households in Hawaii or nationally which might be participating in the same program combinations under different personal circumstances. Our results do not reflect effects on households in Hawaii or nationally that do not participate in these programs (and which constitute the bulk of social security retiree households).

Further, the simulated effects on recipients' discretionary purchasing power should not be construed as occurring continuously or evenly from month to month. Medical expenses, for example, vary widely among individuals and couples and also can vary widely over time for the same persons. The simulated effects, therefore, should be viewed as a range of results occurring over time under given sets of circumstances. Lastly, offsetting benefit reductions may not occur immediately upon receipt of the social security monthly check in July. Some may be delayed due to individual program rules regarding the timing of periodic redetermination of eligibility and benefit amounts and accounting periods. Thus, while accurate in magnitude for the simulated cases, the reductions in benefits may actually occur in phases or at different times for different persons.

We used the average benefit level because, while social security beneficiaries participating in public assistance programs may be represented more frequently in the lower end of the social security benefit distribution, many such beneficiaries also have other income which may raise their total income closer to or even somewhat over the average benefit level. It should be noted that our analyses assume all cash income is derived from SSA. It would have been impractical to have assigned any specific amount of other income because of the manner in which this varies. However, since other income constitutes such a small portion of total income for the retirees discussed in this report, any distorting effects on the cost-of-living adjustment analysis would not appreciably affect the reported results. Additionally, for beneficiaries at or near the average level who have no other income, the average benefit level is, by definition, appropriate.

It should also be noted that the data on the numbers of households receiving social security benefits and also participating in different combinations of public assistance programs, both in Hawaii and nationally, include households receiving social security survivors and disability benefits as well as those receiving retirement benefits. This is because no further breakdown was possible from either Hawaii State officials or SIPP project staff. However, the measure of the possible extent of effects is valid because social security survivors and disability benefits are also adjusted at the same time and in the same manner and degree as social security retirement benefits, and public assistance programs do not uniformly distinguish between different categories of social security beneficiaries.

Similarly, the data on numbers of households in Hawaii and nationally in assisted housing that might be affected include participants in Section 8 Lower Income Housing Assistance as well as Low-Rent Public Housing. These programs treat social security income alike except that the public housing program allows a 10-percent deduction from gross income for the elderly in calculating eligibility income, while the Section 8 program does not. Our analysis used the program formula that produces the more conservative discretionary purchasing power loss rates, i.e., public housing, which would tend to understate somewhat the real effects of a social security increase on discretionary purchasing power of all persons in both programs.

We recognize that there may be slight differences between the social security CPI adjustment factor and the actual overall inflation rate experienced in Hawaii during the period under study, and that different standards referred to in the report are established using different measurement points, methods, and periods. However, the purpose of our analysis was not to determine the precise or absolute discretionary purchasing power losses actually experienced by social security retirees. Rather, it was to determine the relative changes in their discretionary purchasing power, considering the intent of the social security automatic adjustment which all social security beneficiaries received. For this reason we used the social security CPI adjustment factor both for establishing pre-increase discretionary purchasing power equivalents and for adjusting forward the base year Annual Housing Survey shelter and BLS medical costs, as well as estimating the April 1982 Thrifty Food Plan amounts. Aggregate costs for these basic necessities have recently tended to rise more rapidly for the elderly than prices in general; therefore, because we used the overall CPI as an adjuster, our estimate of discretionary purchasing power losses may be conservative.

To reflect accurately the relationship of the various program changes on one another during the period of our analysis, we used, for example, the weighted monthly average food stamp benefit during each year before and after the two increases. Because we used this standard for food costs, our results may be somewhat conservative. Similarly, we chose as "high" and "low" medical expense levels, amounts defined as eligibility or deduction thresholds under the programs being analyzed in order to isolate relationships and interactions among programs' rules, and because adequate, empirically based, modal point expenditure estimates were not available for the specific populations we examined.

Lastly, although we recognize that the 1981 changes to the medicaid and medicare programs will result in additional medical expenditures by recipients in the year following the July 1981 increase, we were unable to ascertain from Health Care Financing Administration officials a sufficiently accurate estimate of this incremental cost to recipients for use in our report. We note, therefore, that (1) our calculation of the loss in discretionary purchasing power for individuals and couples with high and intermediate level medical expenses in the year following the July 1981 social security increase is underestimated to some extent and (2) our study did not include analysis of any proposed 1982 reductions to these programs which might cause further losses to beneficiaries.

As the foregoing methodological notes indicate, in instances where a judgment in procedures for calculating effects was required, we attempted to choose conservative assumptions which would, if anything, understate the degree of benefit reduction effects--and therefore losses in discretionary purchasing power--caused by receipt of the social security benefit increases.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

MAR 16

Mr. Gregory J. Ahart
Director, Human Resources
Division
United States General
Accounting Office
Wasington, D.C. 20548

Dear Mr. Ahart:

Thank you for furnishing us with copies of your report "Social Security Benefit Increases for Inflation Leave Many Retirees Worse Off Financially."

Concerned Department staff have carefully reviewed your report, and have no comments to make at this time.

Sincerely yours,

Richard P. Kusserow
Inspector General

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

STATEMENT OF ACTION

Subject: GAO PROPOSED DRAFT REPORT: SOCIAL SECURITY BENEFIT INCREASES FOR INFLATION LEAVE MANY RETIREES WORSE OFF FINANCIALLY

The draft report does not direct the Secretary of Agriculture to take any action.

DEPARTMENT COMMENTS

In general, we would agree with the conclusions of the report. The conclusions and the text speak primarily to the effects of offsetting reductions to social security benefit increases of the medicaid and assisted housing programs. We, therefore, have no major comments. We would note, however, that the table on page 8 concerning remaining discretionary income inaccurately characterizes food stamps as income. It would seem more appropriate to identify food stamps as a deduction against food expenses since the purpose of the section summarized by the table is to depict monthly income and expenses. As revised, the table should read as follows:

Income:		
Social Security	$292.32	
Total		$292.32
Food Expenses:	$84.50	
Food Stamps	-$29.00	
Food Costs	$55.50	
Expenses		
Medical	$ 0.00	
Shelter	$77.17	
Food Costs	$55.50	
	$132.67	$132.67
Remaining Discretionary Income		$159.65

John W. [illegible]

C. JARRATT
Assistant Secretary for Food and Consumer Services

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

March 10, 1982

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING – FEDERAL HOUSING COMMISSIONER

IN REPLY REFER TO:

Mr. Henry Eschwege
Director
Community and Economic Development
Division
General Accounting Office
441 G Street, N.W., Room 6146
Washington, D.C. 20548

Dear Mr. Eschwege:

Secretary Pierce has asked me to respond to your letter of February 11, 1982 requesting written comments on the GAO draft report entitled "Social Security Benefit Increases For Inflation Leave Many Retirees Worse Off Financially."

As requested, we have reviewed the subject report with respect to Departmental program policies. Overall, the draft reflects current program policies accurately with only one exception as noted below.

Chapter 3 of the report evaluates the impact of recent public assistance program changes, particularly changes in assisted housing and food stamps. The study states that the increase in tenant contribution from 25 to 30 percent was taken into account. However, it is not clear whether or not the evaluators replaced the medical allowance (all expenses over 3 percent of income) with a flat $300 deduction for elderly, handicapped and disabled head of households. Our analysis has shown that the flat deduction would have a substantial impact upon the lowest income tenants by reducing the income for determining rent. In the example below, the increase in tenant contribution from 25 to 30 percent with a medical allowance for all expenses over 3 percent represents a 20 percent change. The $300 standard deduction, on the other hand, represents a 10.1 percent increase in rent. The average low-income elderly tenant, therefore, has more discretionary income available with the new deduction.

Further, our most recent proposal increases the allowance for children from $300 to $400. Since an unspecified proportion of the social security recipients are under the survivor benefit program, we cannot determine the amount of bias in these estimates. If the evaluators have truly failed to take these changes into account, the estimates are probably biased upwards for assisted housing tenants. In other words, the loss in discretionary income for assisted housing tenants is not as severe as stated.

If there are further questions concerning this aspect of the analysis, GAO should contact Keith Rasey, Director, Program Evaluation Division, 426-0751.

Very truly yours,

Philip D. Winn
Assistant Secretary

Enclosure

Example

Illustrated Change in Rent
for Lowest Income (Below 20 Percent of Median)
Elderly Tenants with the $300 Standard
Medical Deduction

	Excess Medical	$300 Medical
Gross Annual Income	$2572.10	$2572.10
Annual Medical Allowance	94.65	300.00
Annual Net Income	2477.45	2272.10
Monthly Rent 25 Percent of Net	51.61	NA
30 Percent of Net	61.94	56.80

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 19 1982

Honorable Charles A. Bowsher
Comptroller General of the
United States
General Accounting Office
Washington, D.C. 20548

Dear Chuck:

We have reviewed your draft report "Social Security Benefit Increases for Inflation Leave many Retirees Worse off Financially." We have the following comments for your consideration.

The draft report creates a strong impression that many social security recipients are hurt by benefit increases for CPI growth if they are receiving other public assistance. However, this inference is not justified by the analysis presented.

A major methodological problem with the analysis lies in its use of the average social security benefit level without addressing the public assistance program participation of social security recipients at that level. Lacking is the connection between social security benefit level and qualification for need-tested assistance, since most (85 percent) social security recipients have other sources of cash income. Moreover, if the 14 percent (9,426 households) of the 67,800 social security households in Hawaii that are also receiving other public assistance are from the low end of the social security benefit distribution, then a significantly different result would be obtained. There is no evidence in the draft report that the simulated cases are representative of any elderly American, especially anyone truly in need.

For example, based on nationwide data, had social security benefit levels at or below about the 35th percentile for retired workers been used for individuals instead of the average level, the primary factor producing the reported result (spend down to medicaid's medically needy income level) would not have been relevant for individuals. Also, about 5,000 Hawaiian social security recipients receiving SSI are categorically eligible for medicaid and would not have to "spend down." Indeed, the reported results show that without the medicaid effect being activated, social security benefit increases make retirees better off than they would be without the increases.

Our review of this draft report suggests that the methodological basis is defective, both in the empirical analysis and in the presentation of the results.

I hope these comments aid in the preparation of a realistic and fair report on this issue.

Sincerely,

Joseph R. Wright, Jr.
Deputy Director Designate

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