

ISM Alternatives: Can we rely on household composition and family ties?

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What is ISM? Why are we concerned about ISM Policy?

- **ISM policy is designed to target higher benefits to a recipient who gets little or no in-kind support (housing, caregiving, utilities, food).**
- Challenges: (1) In-kind support is often given privately, with no paper trail. (2) Difficult to assign dollar value.
- Current ISM is intrusive, a **source of error payments**, disruptive to the lives of SSI recipients, costly. These problems are due to the household budgeting approach (the PMV).

=>Our analysis (1) keeps an ISM policy, (2) simplifies by ending use of household budgeting, and (3) ensures targeting consistent with SSI objectives.

Problems with the PMV

Under current ISM rules, changes in the household budget or in how members of a household split expenses can cause frequent recomputations and can affect SSI payments, even when non-SSI income remains constant. And, because substantial reporting requirements are imposed on recipients, this may increase **error payments** and **administrative costs**.

Examples of **recipients actions that may increase SSI payments** under PMV include:

- Adding recipient's name to the lease;
- Charging room rent to in-home recipient;
- Earmarking recipient's contribution to household for food or shelter; and
- Families switch in-kind support to items that are not counted under the PMV, such as clothing, transportation, and caregiving.

Evaluating In-Kind Support

- **Housing support is substantial:** The American Housing Survey tells us that, on average, poor people spend about \$850 monthly for rent and utilities—more than the maximum SSI benefit.
- **Caregiving support is substantial:** Even minimal caregiving (two hours per day) can cost \$600 or more per month.
- **Food support is relatively minor:** A majority of SSI recipients are eligible for SNAP.

=> Focus ISM reduction on (1) recipients with family members who provide help with housing and caregiving and (2) recipients sharing housing with unrelated person(s)—who likely benefit from shared housing, but not caregiving. What might that look like?

Why family ties? Why cohabitation?

- **Economic theory** (Kuznets and Becker) tells us about small households that are interrelated. In times of need or adversity, related households are sometimes merged (cohabitation), with some family members providing an form of “social insurance” for others. This reflects a type of “**family altruism**” that Becker distinguishes from market-based interactions. Family altruism is basic to the assumptions of in-kind support in the close family case.
- **This sense of mutual support among close family members is inherent in the design of many public programs.** Such programs often adjust benefits or taxes when family members live together, under the assumption that they provide mutual in-kind support or share income to meet basic needs. The assumption that family head(s) will provide for family members is typically accepted without caseworker monitoring. Examples:
 - tax reduction: exemption for dependent children under the income tax is based on an assumption that funds will be used to support dependent children;
 - benefit reduction: eligible couple benefits under SSI are reduced under an assumption of economies of scale and mutual support;
 - tax credit: EITC is adjusted for family composition under the assumption that extra dollars will be used to meet basic need of family members.

Flat Rate ISM: Three-Tiered FBR Structure

- (1) under the **close family case** we assume that family heads provide in-kind support in the form of housing, utilities, caregiving, and food to recipients who live with them;
- (2) under the **roommate case**, we assume that recipients have economies of scale from sharing rent and utilities (but do not enjoy the type of caregiving found in the close family case); and
- (3) under the **living alone case** recipients receive none of the in-kind support under the close family case or roommate case (except of the small fraction with outside ISM).

* PA exception: If cohabitant's income is from PA, there is no ISM reduction.

Flat Rate ISM: Three Tiers

Close Family (23 % of SSI cases)	Adult recipient lives with parents, adult child, or adult sibling.	<i>Reduce SSI FBR – by perhaps one third. FBR=\$489</i>
Roommate (21 % of SSI cases)	Adult recipient lives with unrelated or distantly related adult.	<i>Use current SSI FBR. FBR=\$733</i>
Living Alone (27 % of SSI cases)	Adult recipient lives with no other adults.	<i>Increase SSI FBR – by perhaps 10 percent. FBR=\$806</i>

Single person poverty guideline is \$990

Flat Rate ISM: Poverty Effects

(SIPP data matched to SSA data; no additional program costs)

<u>Below Poverty</u>	<u>Current</u>	<u>Flat Rate ISM</u>
Living Alone	94%	87%
Roommate	43%	42%
Close Family	32%	37%
All	59%	57%

Extreme poverty (< 75% Poverty)

Living Alone	42%	8%
Roommate	28%	27%
Close Family	21%	29%
All	31%	20%

=> Poverty and extreme poverty are much higher for recipients living alone than for those in shared housing, but flat rate ISM reduces poverty and extreme poverty, for recipients living alone and for all recipients

Flat-Rate ISM: Policy Goals

- **ISM Simplification:**
 - *Goal:* Base determinations on information that is stable and verifiable.
 - *Flat Rate ISM:* Base ISM on living arrangements and family ties, not household budgeting. This reduces recipient reporting, recomputations, and error payments.
- **ISM Reduction:**
 - *Goal:* Congress specified a flat-rate FBR reduction of one third for recipients living in the household of another with substantial in-kind support.
 - *Flat Rate ISM:* Apply the one-third reduction to recipients living with close family members, on the assumption that a recipient cohabiting with close family receives support in the form of housing, utilities, and caregiving. Such assumptions of mutual support among family members are basic to the design of public programs.

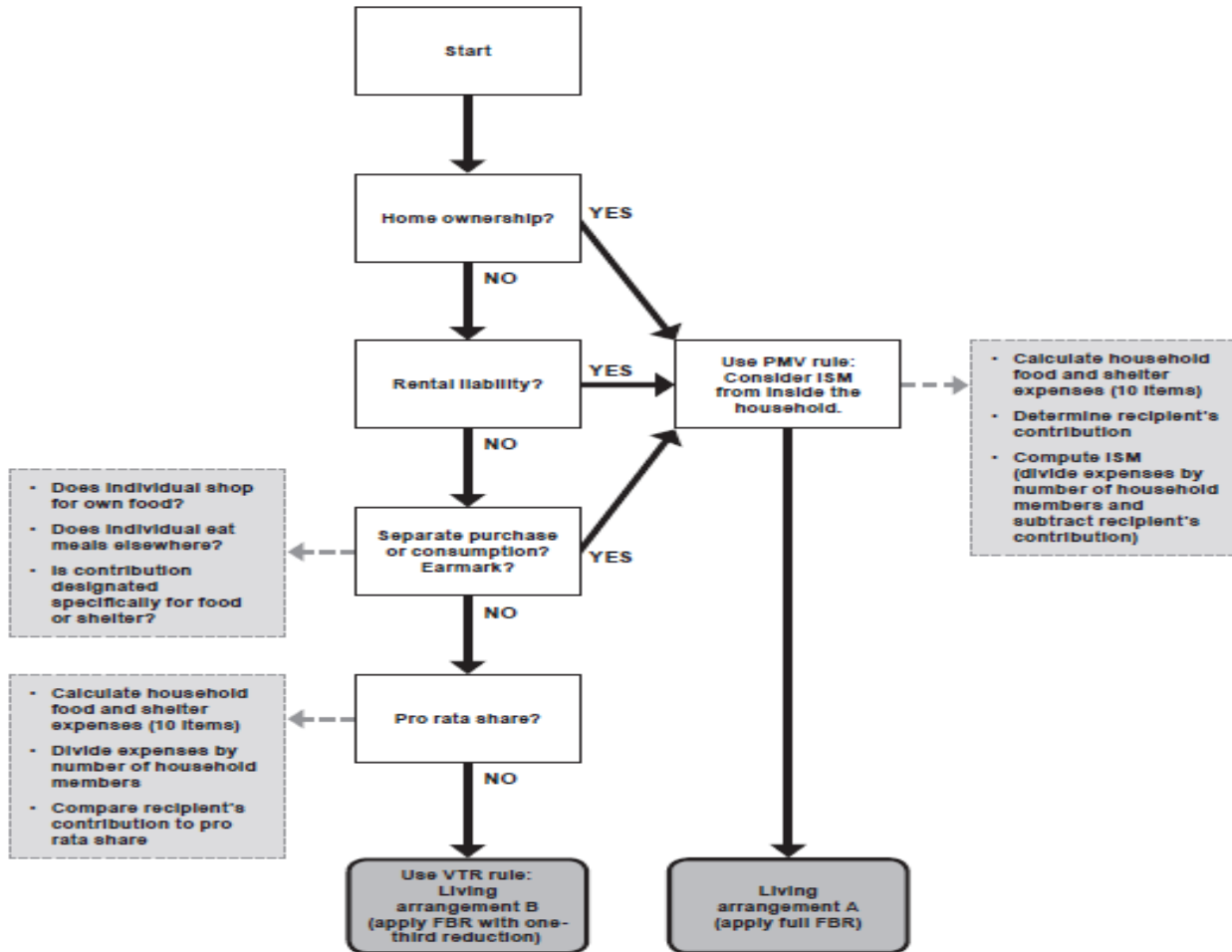
Flat-Rate ISM: Policy Goals (cont.)

- **Redistribution among Living Arrangement Groups:**
 - *Goal:* Adjust for major disparities in poverty rates and in-kind support.
 - *Flat Rate ISM:* Recipients living with close family, who have lower poverty rates and more in-kind support, would have an across-the-board ISM reduction. The resulting program savings would mainly be used to fund an FBR increase for recipients living alone, who have a 94% poverty rate and almost no in-kind support.
- **Family friendly:**
 - *Goal:* Encourage household sharing between recipients and their families.
 - *Flat Rate ISM:* Although recipients living with close family would have an ISM reduction, (1) there would be no limits on in-kind support or reporting requirements on the family's in-kind support and (2) the value of the ISM reduction would be a fraction of the anticipated value of housing and caregiving provided by the family.

Additional Slides

Flow Chart of Current ISM Process

Chart 1.
Simplified illustration of current SSI living arrangement and (inside) ISM process

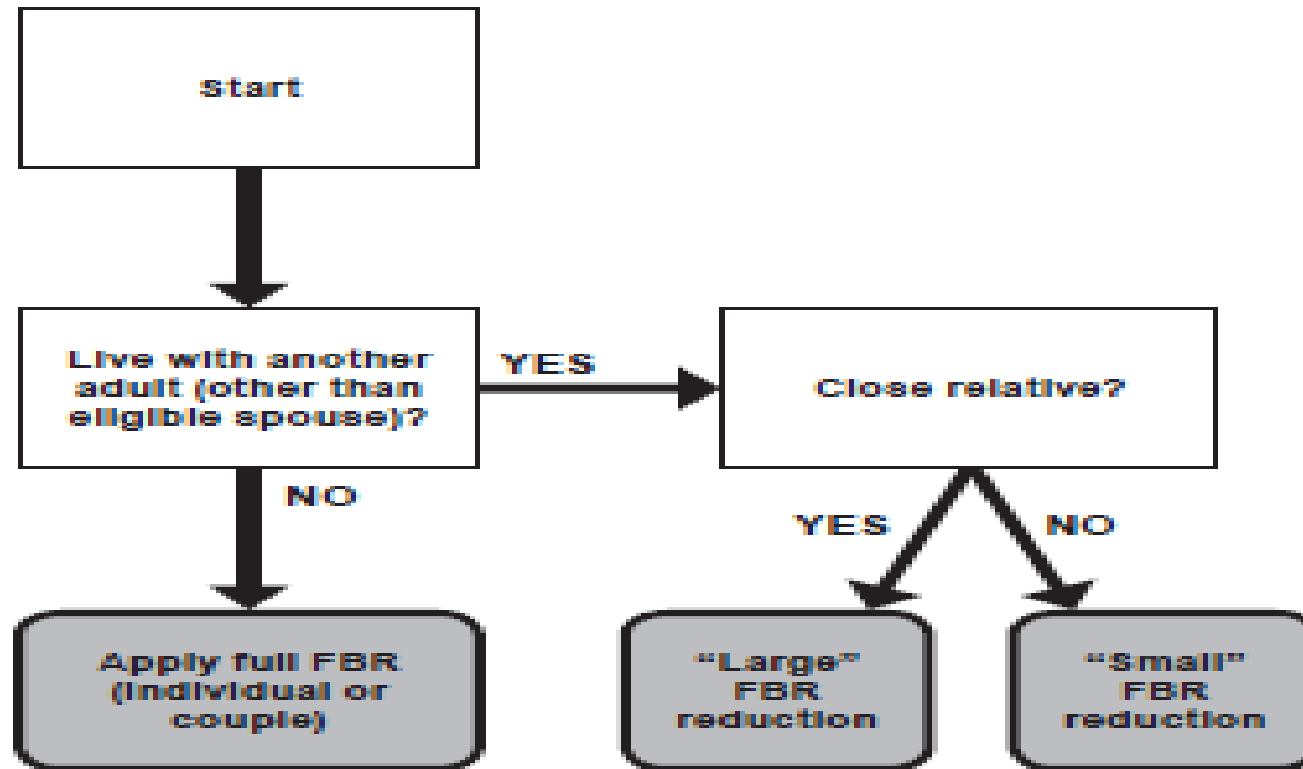


SOURCE: Current program rules.

NOTE: SSI – Supplemental Security Income; ISM – In-kind support and maintenance; PMV – presumed maximum value; FBR – federal benefit rate.

Flow Chart for Flat-Rate ISM

Chart 2.
SSI living arrangement process under flat-rate ISM (inside ISM only)



SOURCE: Flat-rate ISM proposal.

NOTE: SSI = Supplemental Security Income;
FBR = federal benefit rate.

Other ISM Issues

- **Public Assistance Exception:** Other household members who receive public assistance could be ignored when considering who lives alone or with family.
- **Spouses:** Because spouses are subject to income deeming, they could be ignored when considering who lives alone or with family.
- **Child Recipients:** Because parents of child SSI recipients are subject to income deeming, they could be ignored when considering who lives alone or with family.
- **Outside ISM:** Recipients who receive housing assistance from family members who do not live with them could be subject to a benefit reduction.