THE USE OF RESEARCH AND STATISTICS IN THE FORMULATION OF POLICY

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Critics of welfare administration often complain that policy decisions appear to be arbitrary or judgmental, resulting in inequitable treatment of individuals. Those who are less tactful accuse welfare administrators of operating in a vacuum. Shortly after the Senate Finance Committee hearings on the welfare reform bill, Verne Gleason, Special Advisor to California Senate on Social Welfare, in the Proceedings of the Eleventh Workshop on Public Welfare Research and Statistics, August 8-11, 1971, Las Vegas, Nevada, remarked:

> "It appears quite probable that public welfare will be nationalized with the enactment of H.R. 1. During the distress and confusion of putting that program into operation, no one is going to pay much attention to social researchers and their activities."

The speaker went on to say: "I suggest that you," - meaning the welfare researchers - "carefully organize forces and move forward to real professionalism and its protective moat during this vacuum period."

Since it is my turn to speak, I am seizing the opportunity to dispel any notion that the Bureau of Supplemental Security Income makes policy decisions in a vacuum. I would like, therefore, to discuss some of the research activities and statistical information used in the formulation of policy relating to the supplemental security income program for the aged, blind, and disabled.

As you know, Congress provided for a Federal program of cash assistance benefits to aged, blind, and disabled persons; for a mandatory State supplement to prevent reduction in benefits to State assistance recipients transferred to Federal rolls; and also provided for State supplementation of the SSI benefits at the option of the States. I am not going to spend time discussing all of the legislative provisions of the basic SSI program and State supplements. Instead, emphasis will be placed upon our policymaking function which involves filling in the details of the congressional enactment or involves the shaping of policy based upon administrative interpretation of imprecise and vague terminology in the legislation.

To demonstrate the procedures used when we are faced with imprecise terminology, I have selected, for discussion, the issue of "the reasonable value of a home."

Reasonable Value of a Home

Under title XVI of the Social Security Act, eligibility for SSI benefits is limited to persons whose allowable resources are valued at no more than $1,500 for an individual, or $2,250 for an individual living with a spouse. However, the law provides that in determining the resources of an individual or couple, the home will not be counted to the extent that it does not exceed a "reasonable value." Also excluded are household goods, personal effects, and an automobile, to the extent that total value does not exceed such amounts as the Secretary determines to be reasonable. The policy decision to be made, then, is what constitutes a "reasonable value."

Let us consider how statistical information was used in determining the reasonable value of a home. One proposal was to set some value - to be determined - as a national upper limit. Another approach was to establish a range of values, depending on the geographic area. A third approach was to not disqualify anyone for SSI based on the value of the home, per se, but instead, to look at the economics of home ownership and require detailed investigation of the reported income and assets of an individual who appears to be living in a home which costs more to maintain than he can afford. This last approach is based upon the assumption that the costs of utilities, upkeep, insurance, taxes, and mortgage payments tend to deny high value housing to those with low incomes; and that most individuals whose income and resources are low enough to qualify for payments under title XVI will not be able to afford to maintain expensive housing. For this reason, the income and resources limitations in title XVI tend to make the home exclusion provision self-regulating, and the establishment of a maximum permissible home value is unnecessary.

To evaluate these approaches, we decided to take a look at current State practices under State public assistance programs, Federal Housing Administration figures, data from the Census Bureau and the Bureau of Labor Statistics, and various sources of sociological data.

With respect to current State practices, according to the Social and Rehabilitation Service's summary of State plans in effect October 1, 1971, 34 States did not specify maximum dollar home value for recipients. For the 17 States that did fix maximum dollar home values, such values ranged from $2,500 (assessed value less encumbrances) in Alabama to $25,000 (assessed value at 70 percent of market value) in Hawaii. Generally, the trend seemed to move away from specifying maximum home values.

Next we obtained data, from the Census Bureau and the Bureau of Labor Statistics, on the value of owner-occupied housing units, data on total money income of families and unrelated individuals, and data on home expenses derived from annual budget figures for retired couples. Both low income and intermediate income budget figures were obtained. Using updated versions of this data, plus Federal Housing Administration figures and projections, we prepared tables reflecting expected monthly costs of basic shelter items for homes with 1971 values of from under $8,000 to $60,000. These tables indicated the amount of monthly payments which would be necessary to maintain the homes with mortgages and without mortgages. The monthly costs for mortgaged and unmortgaged properties were then cross-tabulated with average and median shelter costs which might be expected for SSI one-person and couple households. This enabled us to derive the value of the house which could be supported by aged SSI beneficiaries, based on various average income estimates. Such values were derived, for one-person and two-person households, for homes with no outstanding mortgage, and for houses with outstanding mortgages.

Other sources of data were examined and we found, based on the 1970 National Center for Social Statistics report, that about 28 percent of current aged recipients lived in their own home (with and without mortgages); the estimated market value of 99 percent of these homes was under $25,000; and less than 1 percent (.8 percent) were valued at over $15,000 but under $25,000. Projections based on statistics derived from the Office of Research and Statistics (SSA) data and the census samples for 1967 and 1970, indicated that, of the potential aged SSI beneficiaries who owned their own homes, 48 percent will own homes valued at $10,000 or less and 22 percent will own homes valued between $10,000 and $15,000. Only 9 percent will own homes valued over $25,000.

On the basis of all of the indicated information, it was decided that the reasonable value of a home is to be $25,000 for the continental United States and $35,000 for Alaska and Hawaii. The $25,000/$35,000 value is the market value which served as the basis for the latest property tax assessment.

The enunciation of a specific policy decision on the reasonable value of a home does not prevent the reopening of the issue. The ongoing SSI quality assurance review program provides a basis for determining whether a policy decision is still valid. In fact, we are currently conducting a study of potential SSI beneficiaries who apparently meet all of the eligibility requirements - except for the value of home criteria. There is also a new problem - that of reassessment. One State (Massachusetts) is planning reassessment at 100 percent of current market value. We have been informed of a few cases where the value of a home jumped from $4,000 to $30,000. This area bears watching and may be especially critical for new claimants.

Let us consider another example of policymaking - this time, not a case of interpreting vague terminology, but instead, an example of filling in the details of the congressional enactment.

Deeming of Income and Resources

The law provides that the income and resources of an eligible individual shall be deemed to include the income and resources of his ineligible spouse or, in the case of a child under 21, of a parent (or the spouse of a parent) with whom the eligible individual is residing. The Act does not specify any limits on, or exceptions to, the amount of income and resources to be deemed, or the methodology to be applied, but it is clearly intended that income would not be deemed to an eligible individual where the circumstances are such that it would be inequitable to do so.

Generally, the issue is the extent to which the income and resources of an ineligible spouse or parent will be deemed to the eligible individual and, specifically: (1) whether an allowance should be made for the needs of the ineligible spouse or parent(s) before deeming income to the eligible individual; (2) whether statutory income disregards should apply to deemed income; (3) whether the needs of ineligible children residing in the household should also be taken into account in the deeming process; and (4) whether some limit should be placed on family income so that, if the limit is exceeded, no individual in that household would be eligible.

A fair limit on total family income that provides an adequate but equivalent level of living for all family members could preclude payments to an individual in a high-income household; this is not inconsistent with the principles of good conscience, reasonableness, and equity. We, therefore, considered the amount of income the Department of Labor estimated to be necessary for a family of four to meet their daily needs, including medical costs. This data provided (for low, intermediate, and high levels) annual budget amounts, relative indexes, and city ranks for Autumn 1971. We also reviewed the poverty levels, defined by the Census Bureau for 1971, as well as poverty levels, classified by family size, provided by the Department of Agriculture Food and Nutrition Service for the fiscal years 1972, 1973, and 1974. Using these concepts as a guide, we established upper limits of income based on family size which could be used as an exit point at which benefits would no longer be payable to families with several eligible children. While the proposed cap on total family income for families with multiple eligible children was not adopted, this type of detailed analyses brought to light the need for a work expense deduction for the ineligible spouse, parent or spouse of parent, as well as a living needs deduction for the ineligible members of the household. These needs, fixed in terms of the basic title XVI payment levels, are reflected in the current policy decisions.

Here again, as in our preceding example of policymaking, we have an ongoing evaluation of the rules. We are currently involved in a case study of situations where income is to be deemed to more than one eligible individual - where the individual has income of his own. Specifically, where two or more such persons are involved, we are trying to determine the effect of transferring the unallocated earnings of one to the other.

Let us consider another example of filling in the details - but, here we are well aware of the congressional intent, expressed in the committee reports, regarding the establishment of limits on gross income from a trade or business.

Establishment of Limits on Gross Income from a Trade or Business

Section 1611(d) of the Social Security Act provides: "The Secretary may prescribe the circumstances under which . . . the gross income from a trade or business (including farming) will be considered sufficiently large to make an individual ineligible for benefits ..." Since section 1611(d) permits, but does not require, the Secretary to establish limits on gross income, the issue is whether any gross income limits should be established and, if so, at what level of gross income.

The House and Senate Committee reports indicate that the purpose of section 1611(d) was to take into account the fact that a self-employed individual is able (to some extent) to control when business income may be received, when business expenses may be incurred, and the amount of net earnings reported for tax purposes. Thus, reported net earnings from self-employment may not accurately reflect the amount of income currently available for support and maintenance. In addition, a businessman may reduce his otherwise reportable earnings by noncash business deductions such as depreciation, depletion, amortization, etc. He may also artificially reduce reportable earnings while having cash available for living expenses. For example, a sole proprietor can control the dates of receipt of business income and the incurrence of business expenses. Such controls can artificially increase or decrease the net earnings in a given year by postponing or accelerating the occurrence of income or expenses as he considers to be in his best interest. As a result, the amount of actual cash available to the individual may bear no relation to his reported net earnings.

Analysis of this provision of the statute took essentially two forms. The first of these was to study certain statistical data provided from Internal Revenue Service records pertaining to general business characteristics. The IRS study data was based on 1970 proprietorships and included the number of businesses with net profit or loss and the average amount of profit and loss by gross business receipts. This also included data by size of business receipts from under $5,000 and by $10,000 intervals to $200,000 and over $200,000. Data by category of business with exemptions for age 65 and blind were separate strata. It was hoped that such data might provide a base from which guidelines could be devised for review of such relationships as those between gross and net income, depreciation experience, and general operating patterns of successful businesses. The second approach was to study actual title XVI cases in which gross income from a trade or business exceeded $10,000.

Analysis of the Internal Revenue Service data revealed little in the way of patterns of operation bearing on the ability to draw income from a business that would not be reflected in net income as reported for Internal Revenue Service purposes. In effect then, beyond an initial estimate of the possible universe of cases involved, the Internal Revenue Service data provided no practical means of identifying or developing the incidence of unstated income by means of business characteristics.

Under the second approach, a study was made of all supplemental security income claims filed in which gross income from a trade or business exceeded $10,000. The study was designed to determine the correlation, if any, between gross receipts, gross income, net income, noncash business expenses, and living expenses, and to ascertain whether a cash flow did exist which is available for support and maintenance. According to the study findings, there was no correlation whatsoever between gross receipts, gross profits, net gain, net loss, nor was there any correlation by types of business. There was little evidence to suggest that individuals were using additional cash flow resulting from depreciation, depletion, and amortization to meet their living expenses. However, there was indication of noncash transfers from businesses to meet living needs (noncash transfers could occur, for example, when a grocery store owner uses a portion of his inventory to meet his food needs). There was also evidence that proprietors are controlling the dates of receipt of business income and the incurrence of business expenses.

Therefore, based on the study findings, it does not appear that there is a rational basis for establishing a gross income limit above which the individual would be automatically excluded from supplemental security income. However, we cannot dismiss this issue by offering the rationale that the statute permits but does not require Secretarial rulemaking. While the statute does not mandate that the Secretary prescribe rules limiting allowable gross income, there was a clearly expressed congressional expectation in this regard. We are, therefore, exploring new avenues. Perhaps a more viable approach to meeting the intent of section 1611(d) of the Act would be to develop living expenses and compare them to reported income - or use a gross income test (rather than reported income) as the trigger for the development of living expenses.

The examples of policy decisions presented thus far stress research or factfinding activities which are dependent upon secondary sources of data. Information from the Census Bureau, Department of Labor, Department of Agriculture, Federal Reserve System, Internal Revenue Service, Social and Rehabilitation Service, State and local governmental units, and private research agencies are illustrative of these sources. It is obvious that without the collection of primary data from the operations of the Social Security Administration, research activities would be seriously restricted, since, in many instances, concerns stemming from secondary sources are not completely relevant or comparable to the concerns of the new welfare program.

Primary data flow from:

(1) Conversion records (consisting of information on State public assistance recipients who were converted to Federal rolls in January 1974),

(2) the Master Beneficiary Record (containing information on Retirement, Survivors, Disability, and Health Insurance beneficiaries),

(3) the Leads Program Study (based on a randomly selected sample of RSDHI recipients from the Master Beneficiary Record),

(4) the Supplemental Security Record (containing information on SSI recipients), and

(5) the quality assurance review program.

Research studies, involving computerized primary and secondary data, are often made in conjunction with our Research and Statistics staff, since these activities require firm grounding in social science research methodology - sampling, correlation, questionnaire construction, etc.

As a policy staff sensitive to what is happening in the welfare area, we have requested, and will continue to request, that our Systems Data Development staff provide statistical information which can be employed in our efforts to examine the relevancy and appropriateness of our current BSSI policies as well as to identify policy gaps.