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Testimony of Theresa J. Devine, Senior Economist, Before the City Council Committee on Aging On Redetermination of the Senior Citizen Rent Increase Exemption In the Event of a Permanent Reduction in Income

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Good morning, Chairwoman Baez and members of the Committee. I am Theresa Devine, a senior economist at the Independent Budget Office. Thank you for inviting us to testify today on the proposed change in rules for redetermination of the Senior Citizen Rent Increase Exemption, or SCRIE, in the event of a permanent reduction in income.

Using data from the Department for the Aging, IBO estimates that the proposed change in rules would benefit just under 400 low-income senior households this year and cost the city approximately $413,000 in foregone property tax revenue. In the remainder of my testimony, I will first discuss the current and proposed SCRIE rules and how we obtained our cost estimate for the proposed change. Thereafter, I will sketch the benefit rules for Social Security and Supplemental Security Income (SSI), two major sources of income for low-income seniors, and how these rules can cause a sharp drop in a senior household's income in the event of widowhood or institutionalization of a spouse.

Current and Proposed Rules

Under current rules, the SCRIE program is available to households which are headed by persons age 62 or older, have annual incomes of $20,000 or less (net of payroll and income taxes, court-supported payments, and cost-of-living increases in pensions and Social Security), and have valid leases in rent-regulated apartments with rents equal to at least one-third of household income. An eligible household that participates in SCRIE is exempt from rent increases, and the property owner receives a property tax abatement to compensate for the lost rental income. The SCRIE program currently serves approximately 44,000 households, according to the Department for the Aging. The Department of Finance reports that the cost to the city for the current fiscal year will be $76.7 million in foregone property tax revenue.

In the event of a permanent decrease in income of more than 20 percent, a SCRIE household may now apply for a redetermination of their rent to a level equal to the same percentage of their income as they paid prior to the income loss. However, the redetermination of the new rent level can only occur "upon renewal or one year after the issuance or renewal of such rent exemption order" (Section 1. Paragraph (9) of subdivision m of Section 26-405 of the Administrative Code of the City of New York, as amended). The proposed amendment would eliminate this delay in rent redetermination. A SCRIE household could apply for the rent reduction immediately after the income loss.

IBO Cost Estimate

IBO obtained its cost estimate for the proposed change in SCRIE rules as follows: First, according to data from the Department for the Aging, 389 households received recertification during calendar year 2002 and, on average their rent was reduced by $177.06 per month. Now, with the current delay in redetermination, each of these households may have waited up to a full year for the rent reduction after their income dropped. Under the proposed rules, these households could have gotten their recertifications without such delays. Unfortunately, we do not know the actual lengths of the delays for these households. However, if we assume that delays of one to twelve months were each equally likely for each household, it follows that the average delay per household would have been six months. Multiplying the average rent change of $177.06 by this average six-month delay, we obtain an estimate of $1,062.36 per household in foregone tax revenue for the elimination of the delay. Multiplying this amount by 389, the number of households with redeterminations, we obtain a total cost estimate of $413,258 for calendar year 2002.

IBO projects that the cost for calendar year 2003 would be approximately the same as that for 2002. Because the rent adjustment for a household depends on the household's income levels before and after its income loss, it seems unlikely that the average rent adjustment would change significantly between years. Also implicit here is an assumption that the number of redeterminations would remain roughly the same. There seems no reason to expect a large change in this number.

Risks to Estimate

IBO expects implementation of this change in SCRIE to have a negligible effect on administrative costs for the Department for the Aging because redetermination would have been done without the change, just later. The Department of Finance will also incur some costs, as additional billing will be required during the year, but IBO does not expect these costs to be large either.

Three additional factors that could affect the total cost of eliminating the delay are also worth noting, although IBO does not expect the impact of any of these factors on total costs to be large.

First, the immediate availability of the rent adjustment could prevent some apartment losses by SCRIE households and thereby keep these households in the program. Although data on the number of such losses are not available, anecdotal evidence suggests that some apartment losses do occur because SCRIE households cannot cover their rents before redetermination. The proposed change would help keep these seniors in their apartments and thereby keep them in the SCRIE program. This would push up program costs.

Second, as SCRIE program benefits improve, participation in the program by other eligible households may also rise. IBO has testified previously on our finding of a very low participation rate among eligible households—just one-third of eligible households participate in SCRIE. Entry of new households into the program would also raise program costs.

Third, some eligible households will still delay the redetermination of their rents even if the rule is changed—either because of unwillingness or inability to deal with necessary paperwork or because of lack of information about the new redetermination rules. These application delays will reduce the cost of the change relative to our estimate.

Why Incomes Decline for SCRIE Households

As the Council considers the proposed change in the administrative code, it may be helpful to have a clear understanding of why a small but significant number of SCRIE households experience large permanent drops in household income.

According to the Department for the Aging, a large permanent drop in a SCRIE household's income is typically brought about by one of two major events: the death of a spouse or the entry of a spouse into a nursing home. Either of these events can have major consequences for the income received by the remaining spouse, because of the heavy reliance of low-income senior households on Social Security and Supplemental Security Income and the structure of the benefit rules for these programs.

Under current Social Security rules, an older couple may receive benefits based on the work record of one or both spouses, depending on the relative levels of the spouses' insured lifetime earnings. While both spouses are alive, the spouse with the higher average insured monthly earnings will receive his or her own retired worker benefit (based on his or her earnings), and the spouse with the lower earnings will receive either his or her own retired worker benefit or one-half of the higher earner's benefit, whichever is larger. When one spouse dies, however, the surviving spouse will receive either his or her own retired worker benefit or the retired worker benefit of his or her spouse, whichever is larger. Thus, benefit income will drop by one-third to one-half (the one-half drop being possible if the spouses had equal average insured monthly earnings). In the event of institutionalization, Social Security does not dictate how a couple's benefit must be divided, but the couple will agree to some division of the benefit with the nursing home. The spouse remaining in the home may be left with only a small share of the couple's total benefit.

With SSI, the public assistance program available to low-income seniors, the amount received depends on a person's living arrangement and other income. The maximum monthly benefits (after disregards of $20 of unearned income and $65 of earnings) are

$933 for a couple living alone and $639 for an individual living alone. Thus, the loss of a spouse can mean a 31.5 percent loss in income for a SCRIE household receiving SSI.

Low-income households such as those served by SCRIE are not likely to receive much income from sources other than Social Security and SSI. Moreover, amounts from these other sources may also go down with widowhood. If a worker's pension is a single-life annuity, for example, these benefits will be totally lost when the worker dies.

Thank you again for the opportunity to testify. I would be happy to answer your questions.