

Social Security and SSI, Issues & Threats: Chained CPI

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2013 Disability Policy Seminar
April 16, 2013

Overview

- What is the chained CPI?
- Why are policy makers considering it?
- How would it affect Social Security, SSI, and other programs, if it was applied to them?
- What is President Obama's chained CPI proposal?
- What does the public think about chained CPI?

What is the chained Consumer Price Index (CPI)?

- **Different way of measuring inflation**
 - Assumes consumers substitute cheaper and different goods when prices of other goods go up
- **Reduces COLAs by 0.3%/year on average (SSA)**
 - Cuts add up: c. 3% after 10 years, c. 9% after 30
- **Cuts benefits for current beneficiaries as soon as it takes effect**

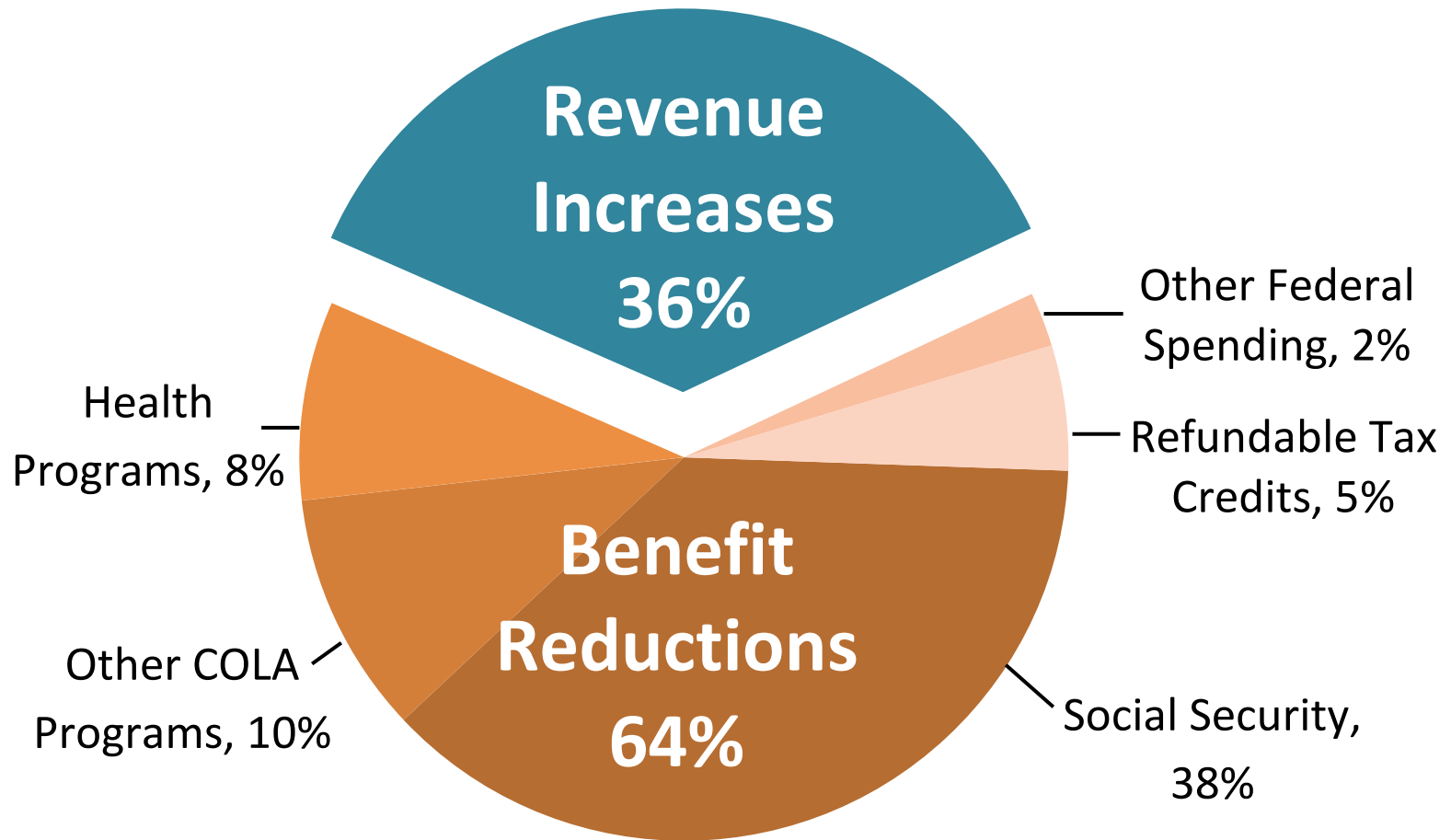
Is the Chained CPI more accurate?

- **Current index (CPI –W) already underestimates inflation for elders & people with disabilities**
 - **Doesn't account for faster rise in medical expenses, which consume a larger share of their budgets**
- **Low-income people probably less able to substitute without reducing their standard of living**
 - **Already choosing between skipping meals or skipping medications, not between beef or chicken**
 - **Not researched recently**

Why are policy makers considering it?

- **Some believe it's more accurate (maybe for some populations or applications)**
- **Part of deficit reduction plans (Bowles-Simpson, Obama)**
 - **Cuts programs by reducing annual COLAs, shrinking eligibility for poverty-based benefits**
 - **Raises revenues by moving people into higher tax brackets faster, reducing some tax benefits (EITC)**

Applying Chained CPI Government-Wide: \$340 Billion in Deficit Reduction, 2014-2023



Source: Congressional Budget Office, March 1, 2013.

How would chained CPI affect Social Security?

Eg: Initial benefit \$13,200/yr (\$1,100/month)

(Note: cuts are the same percentage at all benefit levels, amount of cuts are higher at higher benefit levels)

<u>Years in</u>	<u>Annual Cut</u>
▫ Year 10	-\$343
▫ Year 20	-\$713
▫ Year 30	-\$1,069
▫ Year 40	-\$1,426

(Assumes chained CPI 0.3%/year lower. All figures in constant dollars. Does not include increase for long-term beneficiaries.)

How would these cuts affect beneficiaries' ability to meet basic needs?

- Michael begins receiving SSDI benefits at age 50. His initial benefit is \$1,100 per month.
- At 70, he's received benefits for 20 years.
 - Yearly cut \$713, monthly cut \$59
 - That's equal to the cost of a week's worth of food each month.

How would chained CPI affect SSI?

- **SSI benefits would be cut twice**
 - Initial benefit, based on price-indexed federal benefit standard, cut every year after chained cpi takes effect
 - Annual COLA cut every year for beneficiaries
- (Initial Social Security benefits are wage-indexed, so only cut once)
- Average SSI benefit, \$6,310/year as of Jan. 2013

How would chained CPI affect other programs, if applied?

- **Other programs with annual COLAs reduced**
 - **Eg, Military retirement, civil service retirement**
- **Over time, fewer people eligible for dozens of needs-based programs that are based on the federal poverty guideline**
 - **Eg, SNAP/Food Stamps, Children's Health Insurance Program, parts of Medicaid and Medicare**

What is President Obama's Chained CPI proposal?

- **Includes some protections for vulnerable people**
 - **Bump-ups for long-term Social Security beneficiaries**
 - **Exempts SSI and pensions for low-income veterans**
 - **Not applied to index federal poverty guideline**
- **Applies chained CPI to all parts of tax code**
 - **People move into higher tax brackets sooner**
 - **EITC not exempt, reduces annual EITC increases**
 - **No impact on Affordable Care Act credits for insurance premiums (based on poverty guideline)**
- **Program cuts = \$130 b/10 yrs, revenue = \$100b/10 yrs**

How would the bump-ups in the President's plan work?

Based on what we know so far:

- First increase starts in year 15 (age 76 for retirees), phased-in over 10 years
- At end of 10 years, equals 5% of avg retiree benefit (c. \$800/year, \$67/month)
 - Eg., in year 15, benefit increase = c. \$6.70/month; year 16, c. \$13.40/month; year 25, c. \$67/month
 - Flat amount represents a larger percentage increase for people with lower benefits
- Second increase starts in year 35 (age 95), phased in over 10 years

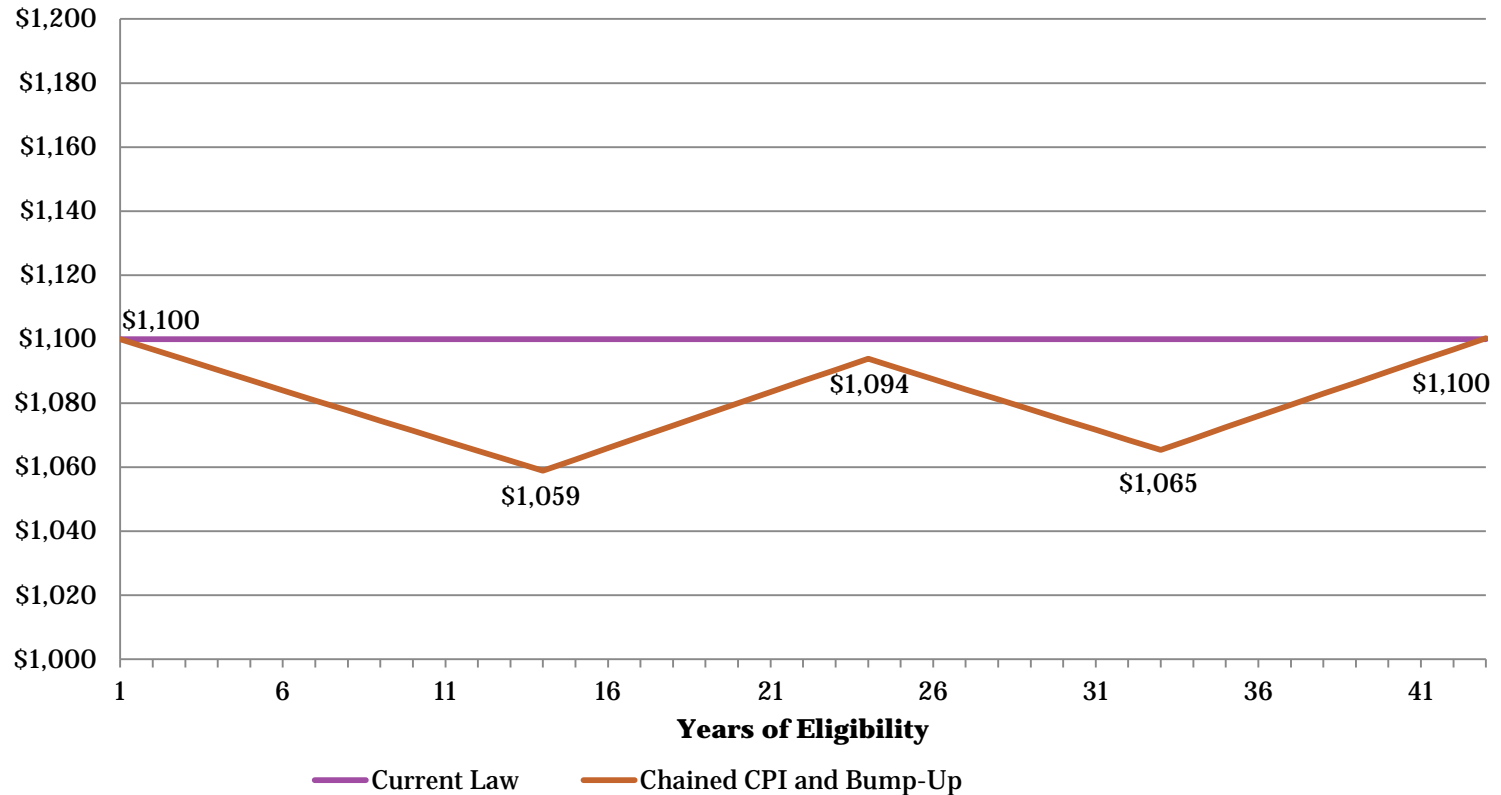
How would the chained CPI with President's bump-ups affect Social Security benefits?

Eg, Initial benefit \$13,200/yr (\$1,100/month)
Impacts vary depending on benefit level

Year	Annual Cut, Chained CPI	Cut w bump-up
10	-\$343	-\$343
20	-\$713	-\$283
30	-\$1,069	-\$304
40	-\$1,426	-\$119

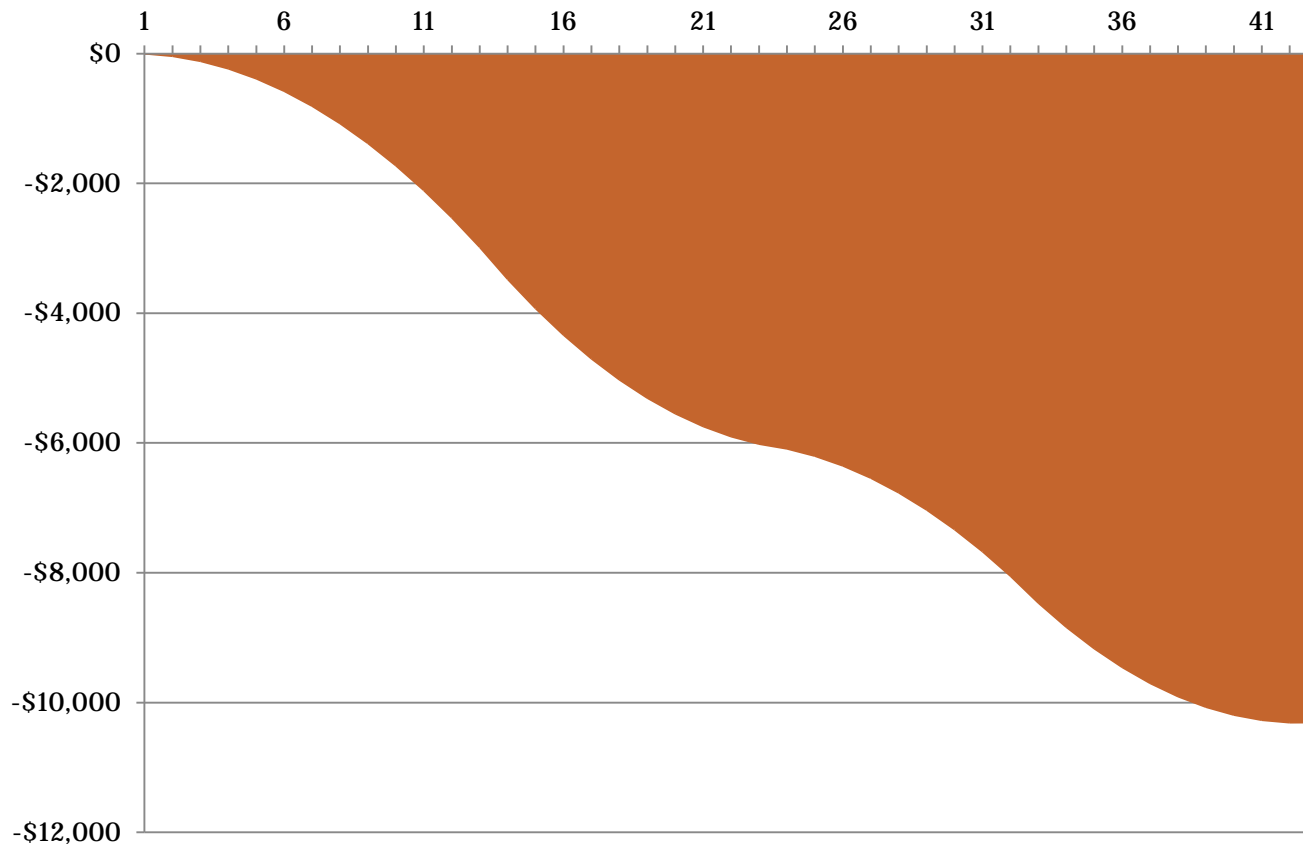
At year 43, benefits for this individual reach current law levels (zero cut)—then they start declining again.

Effect of Chained CPI and Bump-Ups in President's Budget on Beneficiary Receiving \$1,100/Month Initially



Source: NWLC calculations based on Social Security Office of the Chief Actuary Estimates, Current Population Survey, 2011, and the President's Fiscal Year 2014 Budget

Cumulative Loss in Benefits for a Beneficiary Receiving \$1,100/Month Initially under the Chained CPI and Obama Bump-ups compared to Current Law by Year of Eligibility



Source: NWLC calculations based on Social Security Office of the Chief Actuary Estimates, Current Population Survey, 2011, and the President's Fiscal Year 2014 Budget

What does the public think about the chained CPI?

AARP survey of voters 50+ (April 2013) shows strong agreement across the political spectrum:

- **87%** believe it's **very** important that benefits are not reduced for today's seniors (89% Ds, 86% Rs, 88% Is)
- **84%** oppose reducing Social Security benefits to reduce the deficit (91% Ds, 80% Rs, 78% Is)
- **66%** would be less favorable towards their Member of Congress if they voted for a chained CPI (69% Ds, 60% Rs, 67% Is)