NATIONAL WOMEN'S LAW CENTER
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SOCIAL SECURITY

REPORT

Chained CPI Imposes Painful Social Security Benefit Cuts and a Benefit Bump-Up Provides Only Limited Relief

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As part of deficit-reduction negotiations, some policy makers have proposed switching to the chained consumer price index (CPI) to calculate the cost-of-living adjustment (COLA) for Social Security and other programs. The chained CPI would lower the annual COLA,[1] reducing the value of Social Security benefits more and more over time. It is not a more accurate measure of inflation for the elderly – and it would be especially harmful to women, because on average they live longer than men, rely more on income from Social Security, and are already more likely to be poor.[2]

Recognizing that the chained CPI targets the oldest, poorest Americans,[3] some deficit-reduction plans propose an increase in Social Security benefits for long-term beneficiaries in an attempt to mitigate the cuts from the chained CPI. This analysis examines how effective the "20-year benefit bump-up" proposed in the Bowles-Simpson Fiscal Commission report[4] would be in protecting the typical single elderly woman – a woman with an initial benefit of $1,100 per month, the median benefit for single women 65 and older[5] – and other vulnerable beneficiaries from the impact of the chained CPI.

KEY FACTS

For the typical single elderly woman:

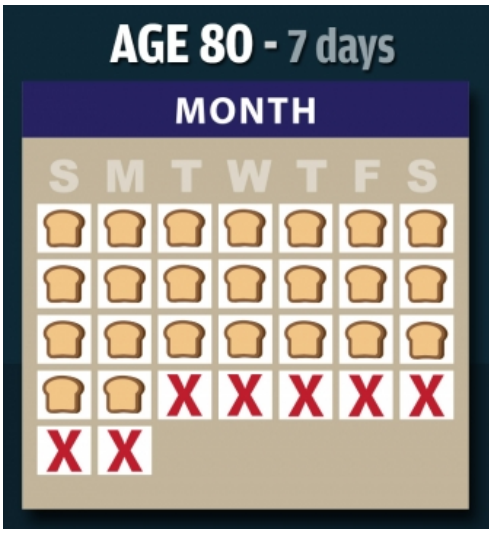
- **The cut from the chained CPI would reduce her monthly benefits by an amount equal to the cost of one week's worth of food each month at age 80. She would still have two years to wait before receiving any help from the bump-up.**
- **The Bowles-Simpson bump-up would restore her monthly benefits to current-law levels for only two years – and then benefits would fall behind again.**
- **By age 95, the cut in her benefits would equal the cost of three days' worth of food each month.**

How the 20-year benefit bump-up proposed in the Bowles-Simpson report would work

The full increase from the bump-up would equal five percent of the benefit of a worker with average lifetime earnings.[6] It would be phased in over five years, at a rate of one percent per year, starting 20 years after an individual first becomes eligible for benefits. For retirees, the bump-up would start at age 82 (20 years after attaining the early eligibility age, currently 62); for recipients of disability benefits, it would start 20 years after the disability determination.[7]

The Bowles-Simpson bump-up provides no relief to anyone from the first 20 years of cuts from the chained CPI.

- The chained CPI would seriously erode the ability of elderly women to meet their basic needs years before a 20-year bump-up would take effect. For the typical single elderly woman, the cut from the chained CPI would reduce her monthly benefits by $56 at age 80,[8] an amount equal to the cost of one week's worth of food each month for a single elderly person.[9] She would still have two years to wait before receiving any help from the bump-up in meeting the rising cost of food and other necessities.



The Bowles-Simpson bump-up would restore monthly benefits to current-law levels for only two years for the typical single elderly woman – and then fall behind again.

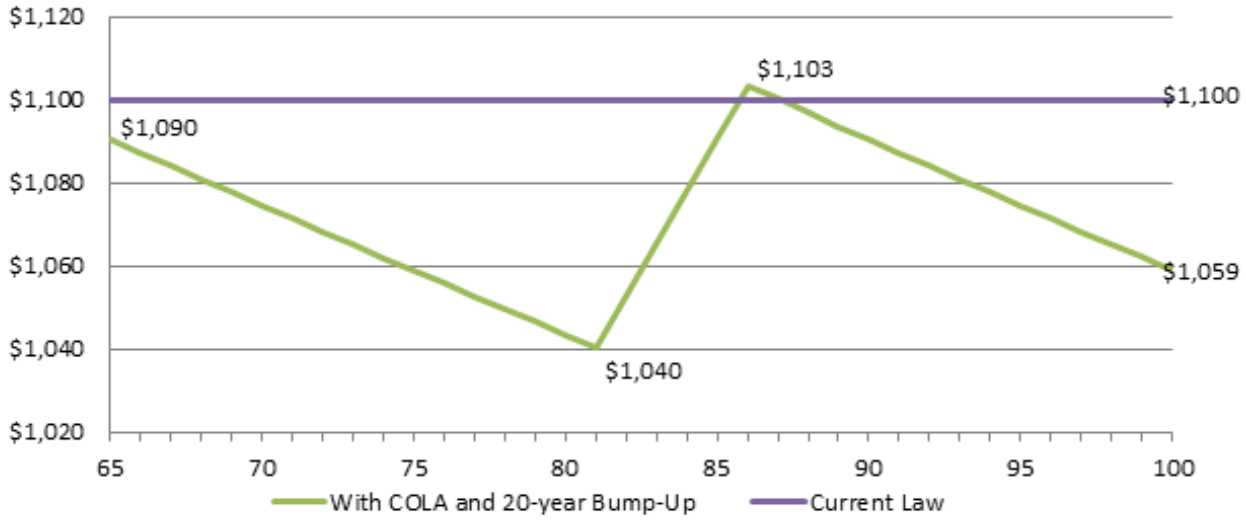
- After the Bowles-Simpson bump-up was fully phased in, at age 86, the monthly benefit of the typical single elderly woman would be $1,103, $3 more than her current-law benefit. The following year, her benefit would equal her current-law benefit. After that, her monthly benefit would always be less than her current law benefit.[10]

- By age 95, even with the bump-up, the chained CPI would cut her monthly benefit by $25, the equivalent of losing three days' worth of food each month.[11] While this is an improvement over the loss of nearly two weeks' worth of food with no bump-up,[12] it is still a significant hardship.

- For an individual whose initial Social Security benefit is equal to or higher than $1,157 per month ($13,884 per year), the Bowles-Simpson bump-up would never restore her benefit to current-law levels.[13]

- A smaller bump-up, like the one proposed in the Rivlin-Domenici deficit reduction plan,[14] would never restore the monthly benefit of the typical single elderly woman to current-law levels.

Effect of COLA and 20-year Bump-up on Social Security Monthly Benefit of the Typical Single Elderly Woman

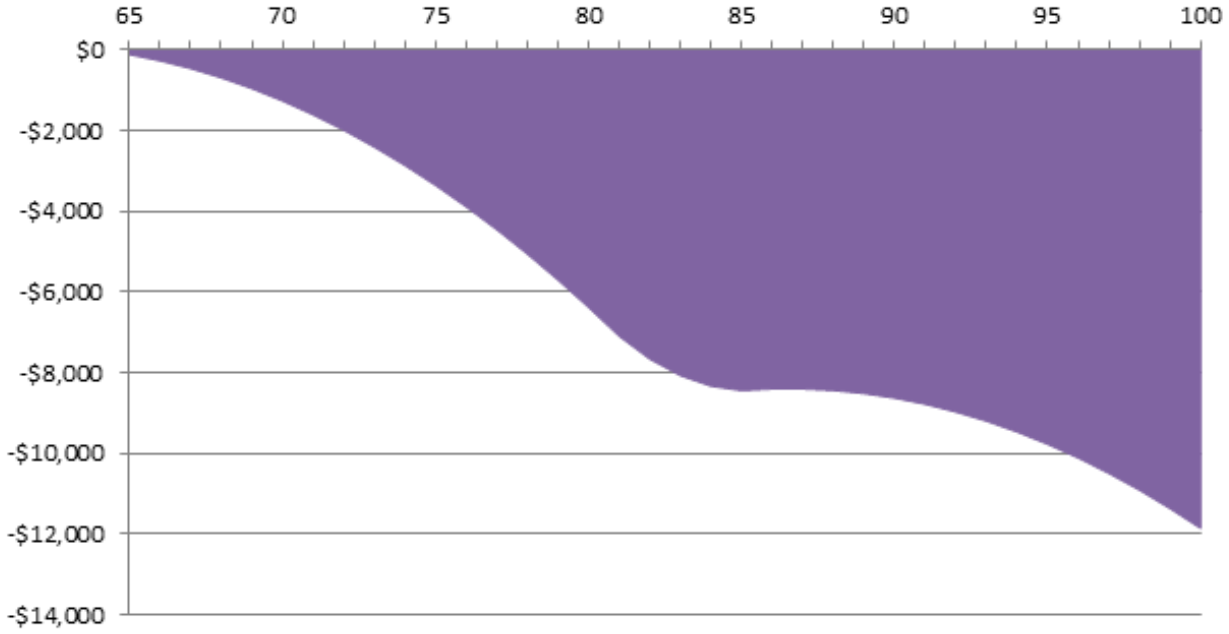


Source: NWLC calculations based on Social Security Office of the Chief Actuary Estimates and Current Population Survey, 2011 www.nwlc.org

The cumulative loss from the chained CPI, even with the Bowles-Simpson bump-up, is substantial.

- By age 86, with the bump-up fully phased in, the typical single elderly woman would have a cumulative loss in benefits of more than $8,400. By age 95, the cumulative loss would be more than $9,770.[15]

Cumulative Loss in Social Security Benefits for the Typical Single Elderly Woman under the COLA and 20-year Bump-up compared to Current Law by Age



Source: NWLC calculations based on Social Security Office of the Chief Actuary Estimates and Current Population Survey, 2011 www.nwlc.org

A bump-up in Social Security benefits would provide no relief to most of the poorest elders who rely on SSI.

- The Supplemental Security Income (SSI) program provides income support to people who are poor and over age 65 or living with disabilities. Women are more than two-thirds of elderly SSI recipients.[16]
- Switching to the chained CPI would cut SSI benefits even more deeply than Social Security benefits, because the SSI COLA is used to calculate both the initial benefit level and the annual COLA for subsequent benefits. Thus, someone who first received SSI ten years after the adoption of the chained CPI would experience 10 years of COLA cuts in her first year, as well as cuts every year after that.
- The majority of SSI recipients also receive Social Security, though their Social Security benefits are well below the poverty line.
- For every $1 increase in Social Security benefits, SSI benefits are reduced by $1. Thus the poorest beneficiaries, who would retain eligibility for SSI even if their Social Security benefits increase slightly from a bump-up, would receive no additional income.
- The bump-up could push some individuals who had been receiving small SSI benefits above the SSI threshold. However, this could make them worse off because they would lose automatic Medicaid eligibility when they lose SSI eligiblity.

A "birthday bump-up" would provide zero benefit to people receiving disability benefits.

- The chained CPI hits long-term beneficiaries the hardest, including people disabled at an early age as well as the very old. The Bowles-Simpson "20-year" bump-up would be available to both populations. However, the Rivlin-Domenici bump-up plan, and other proposals for a "birthday bump" tied to attaining a certain age, would leave recipients of disability benefits without any assistance.

Conclusion

Switching to the chained CPI is not a mere technical adjustment. It is a substantial cut in Social Security benefits that targets the very old and people with long-term disabilities – and the fix that has been proposed does not adequately protect vulnerable beneficiaries.

1 The chained CPI reduces the COLA by an average of 0.3 percentage points per year. U. S. Social Security Administration, Office of the Chief Actuary, Letter to Representative Jason Chaffetz (Nov. 2011), ("Actuary's Letter Nov. 2011"), *available at* http://www.ssa.gov/oact/solvency/JChaffetz_20111109.pdf.

2 National Women's Law Center, Switching to the Chained CPI Means Painful Cuts to Social Security Benefits – Especially for Women (Oct. 2012), ("NWLC, Switching to the Chained CPI"), *available at* http://www.nwlc.org/sites/default/files/pdfs/socialsecuritychainedcpiupdate.pdf.

3 AARP, Adopting a Chained CPI Targets the Oldest, Poorest Americans (Dec. 2012), *available at* http://www.aarp.org/work/social-security/info-12-2012/adopting-a-chained-cpi-targets-the-oldest-poorest-americans-AARP-ppi-econ-sec.html.

4 Erskine Bowles and Alan Simpson, co-chairs, National Commission on Fiscal Responsibility and Reform, *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform* (2010), at 50 ("Bowles-Simpson report"), *available at* http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf.

5 NWLC calculations based on Miriam King, Steven Ruggles, J. Trent Alexander, Sarah Flood, Katie Genadek, Matthew B. Schroeder, Brandon Trampe, & Rebecca Vick, Integrated Public Use Microdata Series, Current Population Survey: Version 3.0. [Machine-readable database]. Minneapolis: University of Minnesota, 2011 ("CPS 2011"). The median annual benefit for a single female beneficiary 65 and older in 2011 was $13,157 – a monthly benefit of $1,096.42.

6 Specifically, the benefit will equal five percent of the Primary Insurance Amount (PIA) of a worker with average lifetime earnings (in 2011, $1,575.20. *See* U.S. Social Security Administration, Annual Statistical Supplement to the Social Security Bulletin, 2012 (Feb. 2013), Table 2.A26, *available at* http://www.ssa.gov/policy/docs/statcomps/supplement/2012/2a20-2a28.html#table2.a26.)

7 Bowles-Simpson report, *supra* note 4 and U.S. Social Security Administration, Office of the Chief Actuary, Memo to Fiscal Commission, "Estimates of the OASDI Financial Effects of the plan developed by National Commission on Fiscal Responsibility and Reform, December 1, 2010" (Dec. 2010), *available at* http://www.ssa.gov/oact/solvency/index.html.

8 NWLC, Switching to the Chained CPI, *supra* note 2.

9 NWLC calculations based on Wider Opportunities for Women, The Elder Economic Security Initiative (March 2012), *available at* http://www.wowonline.org/documents/EESINationalFactSheetJuly2012FINAL.pdf.

10 NWLC calculations based on CPS 2011, *supra* note 5 and Actuary's Letter Nov. 2011, *supra* note 1.

11 Ibid.

12 NWLC, Switching to the Chained CPI, *supra* note 2.

13 NWLC calculations based on CPS 2011, *supra* note 5 and Actuary's Letter Nov. 2011, *supra* note 1.

14 Pete Domenici and Alice Rivlin, co-chairs, *Debt Reduction Task Force of the Bipartisan Policy Center, Restoring America's Future: Reviving the Economy, Cutting Spending and Debt, and Creating a Simple, Pro-Growth Tax System* (2010), *available at* http://bipartisanpolicy.org/projects/debt-initiative/about. The increase in the Rivlin-Domenici plan was five percent of the average retired-worker PIA, a lower amount than the PIA of a worker with average lifetime earnings.

15 NWLC calculations based on CPS 2011, *supra* note 5 and Actuary's Letter Nov. 2011, *supra* note 1.

16 U.S. Social Security Administration, SSI Annual Statistical Report, 2011 (Sept. 2012), *available at* http://socialsecurity.gov/policy/docs/statcomps/ssi_asr/. Federal Administered Payments, Table 5: By type of payment, sex, eligibility category, and age, December 2011.