SOCIAL SECURITY

REPORT

Obama Plan Fails to Adequately Protect Long-Term Social Security Beneficiaries from Chained CPI

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April 2013

In his Fiscal Year (FY) 2014 budget, President Obama proposes switching to the chained consumer price index (CPI) to calculate the cost-of-living adjustment (COLA) for Social Security. The chained CPI would lower the annual COLA,[1] reducing the value of Social Security benefits by an amount that gets larger the longer a beneficiary lives. It would cut benefits for current beneficiaries as soon takes effect (in 2015, under the President's budget proposal).[2] 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.[3] And the chained CPI is not a more accurate measure of inflation for Social Security beneficiaries: the current inflation measure already underestimates inflation for the elderly and people with disabilities, the large majority of Social Security beneficiaries, because it fails to take account of their higher health care spending.[4]

Recognizing that the chained CPI is not just a technical change but a benefit cut that would cause real hardship for the oldest and poorest Americans,[5] the President's FY 2014 budget proposes some protections for vulnerable beneficiaries.[6] First, the President's budget proposes two small and gradual increases ("bump-ups") in Social Security benefits to mitigate the cuts for long-term beneficiaries. Second, the President's budget would exempt needs-based benefit programs such as Supplemental Security Income (SSI) from the chained CPI,[7] and would not use the chained CPI to adjust the federal poverty guidelines, which are used to determine eligibility for dozens of federal and state programs.[8]

KEY FACTS

For the typical single elderly woman:

- **By age 75, before the first bump-up begins, the cut from the chained CPI would reduce her monthly benefit by an amount equal to the cost of five days' worth of food each month.**

- **By age 94, after the first bump-up has ended and before the second begins, the cut from the chained CPI would equal the cost of more than four days' worth of food each month.**

- **The bump-ups proposed in the President's budget would not restore her monthly benefit to current-law levels – unless she reached age 104.**

This analysis examines how effective the bump-ups for long-term beneficiaries would be in protecting the typical single elderly woman – a woman with an initial benefit of $1,100 per month ($13,200 per year), the median benefit for single women 65 and older.[9] Social Security provides about 73 percent of the median annual income for single women 65 and older, which is about $18,000.[10]

How the benefit bump-ups proposed in the President's FY 2014 budget would work

The proposed bump-ups are small increases in benefits that phase in gradually and start at different ages. They are designed to reduce the impact of the chained CPI on long-term beneficiaries. The first bump-up would start at age 76. Its value when fully phased in would equal 5 percent of the average retiree benefit (an amount that the White House estimates this year would be roughly $800 per year or $67 per month). The bump-up would phase in over 10 years at a rate of half a percent per year. Thus, at age 76, the bump-up would add about $6.70 to monthly benefits; at age 77, an additional $6.70, for a total bump-up of about $13.40 per month that year; and so forth, until reaching a total bump-up of about $67 per month when fully phased in after ten years. (The chained CPI would continue to apply every year, so the value of the bump-up shrinks over time.) A second bump-up would start phasing in over 10 years at age 95. Long-term recipients of disability and other types of Social Security benefits would also be eligible for bump-ups: the first, starting in the 15th year of benefit receipt, and the second in the 35th year. The chained CPI would be applied starting in 2015; bump-ups would start in 2020.[11]

Before they get any relief from the bump-up, cuts from the chained CPI would erode the ability of elderly women to meet their basic needs.

- For the typical single elderly woman, the cut from the chained CPI would reduce her monthly benefit by $41 at age 75.[12]

- The average cost of food for a single elderly person is about $56 per week or $8 per day; thus, a benefit cut of $41 per month is equivalent to the loss of more than five days' worth of food each month.[13]
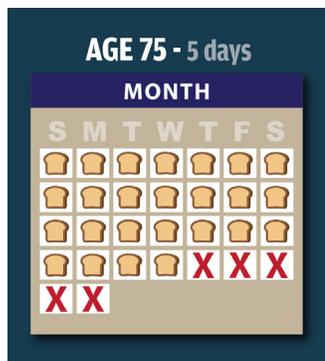
### After age 85, the cuts from the chained CPI start growing deeper again.

- When the first bump-up is fully phased in at age 85, the monthly benefit of the typical single elderly woman would be $1,094, still $6 less than her current-law benefit. This amount is equivalent to the loss of almost one day's worth of food each month for a single elderly person.[14]

- By age 94, before the second bump-up begins, the chained CPI would cut her monthly benefit by $35, the equivalent of losing more than four days' worth of food each month.[15]
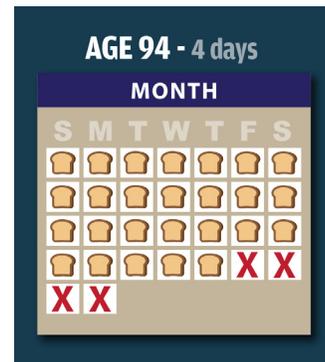
The bump-ups would not restore the Social Security benefit of the typical single elderly woman to current-law levels – unless she lives to 104.

- At age 95, a second gradual bump-up in benefits would start a 10-year phase in. But the benefit of the typical single elderly woman would not be restored to current law levels unless she lived to age 104.[16]

- For an individual whose initial Social Security benefit is equal to or higher than $1,107 per month ($13,284 per year) – just over the benefit of the typical single elderly woman – the bump-ups proposed in the President's budget would never restore her benefit to current-law levels.[17]

- Although few retired beneficiaries are likely to receive the full benefit of the second bump-up, it would also be available, and more relevant, for individuals who start receiving disability benefits at an early age. For a worker who began receiving disability benefits at age 40, the second bump-up would be fully phased in at age 82.[18]

Effect of Chained CPI and Bump-Ups in President's Budget on the Monthly Social Security Benefit of A Typical Single Elderly Woman

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

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The cumulative loss from the chained CPI, even with the President's two bump-ups, is substantial.

• By age 85, with the first bump-up fully phased in, the typical single elderly woman would have a cumulative loss in benefits of almost $6,000. By age 94, the cumulative loss would be more than $8,300.[19]

• By age 104, with the second bump-up fully phased in, though her monthly benefit would be back to current-law levels, the typical single elderly woman would have a cumulative loss in benefits of almost $10,200.[20]

Cumulative Loss in Social Security Benefits for A Typical Single Elderly Woman with Chained CPI and Bump-ups in President's Budget
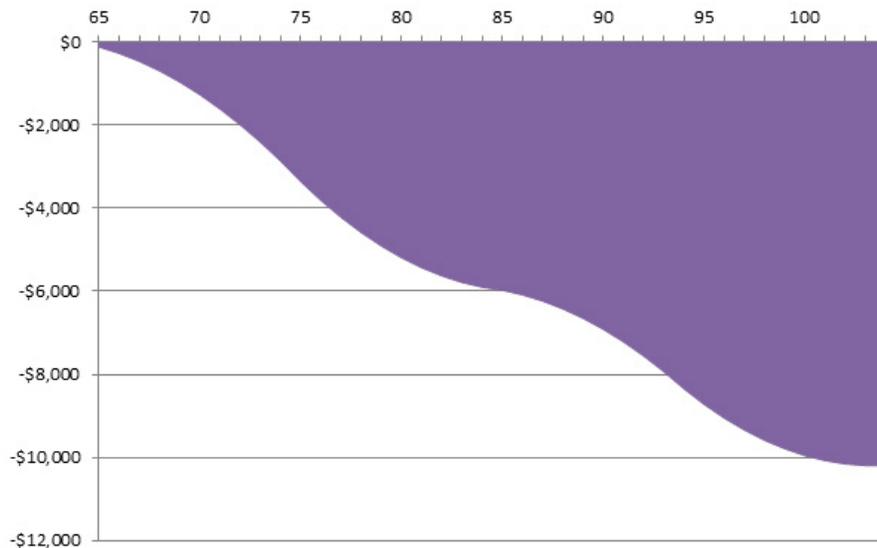
Source: NWLC calculations based on Social Security Office of the Chief Actuary Estimates, Current Population Survey, 2011, and the President's Fiscal Year 2014 Budget

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Conclusion

The President's proposal to bump-up benefits for long-term Social Security beneficiaries, although it reduces the cuts to Social Security from the chained CPI (and exempts SSI and other needs-based programs from its application), fails to adequately protect many economically insecure elderly women who rely heavily on Social Security – and adequate cost-of-living adjustments – to make ends meet. Although the design of the bump-ups could be improved, the fundamental problem is with the chained CPI itself.

The chained CPI cannot be justified as a more accurate measure of inflation for the elderly and people with disabilities – and it targets the very old and people with long-term disabilities for the deepest cuts. These populations are also the most likely to have stopped working, exhausted other assets, face increasing health care costs, and be living without the support of a spouse. Ensuring that all vulnerable beneficiaries are fully protected from the chained CPI is not feasible;[21] the better way to avoid doing harm to elderly women and other at-risk populations is to reject the use of the chained CPI.

1 The chained CPI reduces the COLA by 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 President's Fiscal Year 2014 Budget Summary Tables, Table S-9 Mandatory and Receipt Proposals (Apr. 2013), *available at* http://www.whitehouse.gov/default/files/omb/budget/fy2014/assets/tables.pdf. Shows effect of chained CPI beginning in 2015 (201).

3 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.

4 Ibid.

5 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.

6 White House, Office of Management and Budget, Chained CPI Protections (Apr. 10, 2013), ("Chained CPI Protections") *available at* http://www.whitehouse.gov/omb/budget/factsheet/chained-cpi-protections. Additional information about the specifics of the President's chained CPI proposal was provided by staff of the White House National Economic Council in conference calls and emails.

7 The exemption for SSI is particularly needed because SSI benefits would be cut twice by the chained CPI. Initial benefits would be reduced every year because they are price-indexed, not wage-indexed the way Social Security benefits are. The annual COLA for SSI beneficiaries would also be reduced. Thus, an individual who first began receiving SSI 10 years after the chained CPI took effect would experience 10 years worth of cuts in her first year, and additional cuts every year thereafter.

8 Office of The Assistant Secretary for Planning and Evaluation, Dep't. of Health and Human Services, Frequently Asked Questions Related to the Poverty Guidelines and Poverty, *available at* http://aspe.hhs.gov/poverty/faq.cfm#programs (last visited Apr. 15, 2013).

9 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.

10 Ibid. The median annual personal income for a single female beneficiary 65 and older in 2011 was $18,035.

11 *Supra* note 6.

12 NWLC calculations based on CPS 2011, *supra* note 9, Chained CPI Protections, *supra* note 6, and Actuary's Letter Nov. 2011, *supra* note 1.

13 NWLC calculations based on Wider Opportunities for Women, The Elder Economic Security Initiative (March 2012), *available at* http://www.wowonline.org/documents/EESINationalFactSheetJuly2012FINAL.pdf, which estimates that the average weekly cost of food for a single elderly person is $56.

14 NWLC calculations based on CPS 2011, *supra* note 9, Chained CPI Protections, *supra* note 6, and Actuary's Letter Nov. 2011, *supra* note 1.

15 Ibid.

16 Ibid.

17 Ibid.

18 *Supra* note 6.

19 NWLC calculations based on CPS 2011, *supra* note 9, Chained CPI Protections, *supra* note 6, and Actuary's Letter Nov. 2011, *supra* note 1.

20 Ibid.

21 *See* Social Security Works, The Infeasibility of Protecting Vulnerable Populations from the Chained CPI *available at* http://strengthensocialsecurity.org/sites/default/files/The_Infeasibility_of_Protecting_Vulnerable_Populations_from_the_Chained_CPI.pdf (last accessed Apr. 15, 2013).