

Response to the Ways and Means Committee on COLA Proposals: Chained CPI Would Not Strengthen Social Security

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Submitted to the Subcommittee on Social Security of the House Committee on Ways and Means

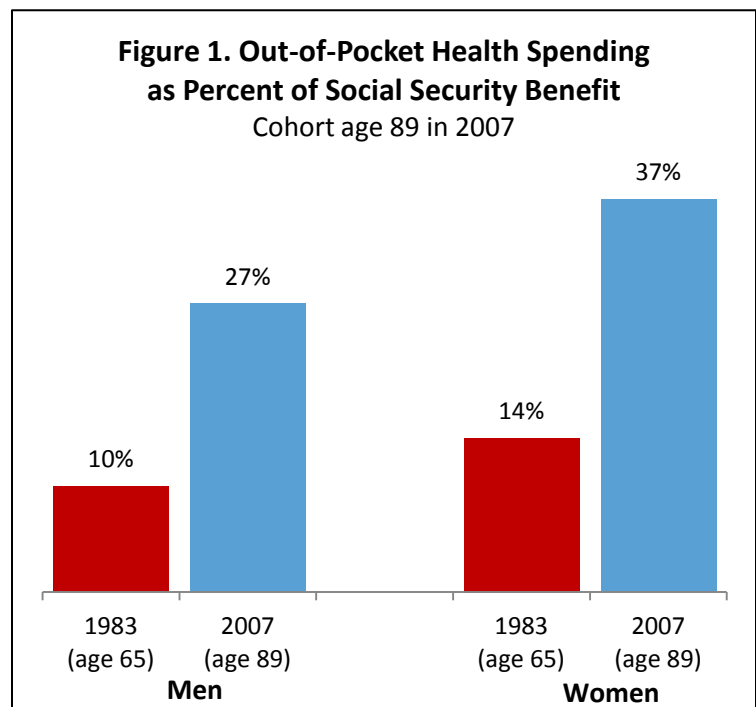
August 9, 2013

I am pleased to respond to an open invitation from the House Ways and Means Committee to comment on proposals to adopt a “chained” consumer price index, or C-CPI, to determine cost-of-living adjustments (COLAs) for future Social Security benefits. Research by the National Academy of Social Insurance on this topic includes:

- [Should Social Security’s Cost-of-Living Adjustment Be Changed?](#)¹
- [How Would Shifting to a Chained CPI Affect the Federal Budget?](#)²
- [How Would Seniors Fare – by Age, Gender, Race and Ethnicity, and Income – Under the Bowles-Simpson Social Security Proposals by 2070?](#)³

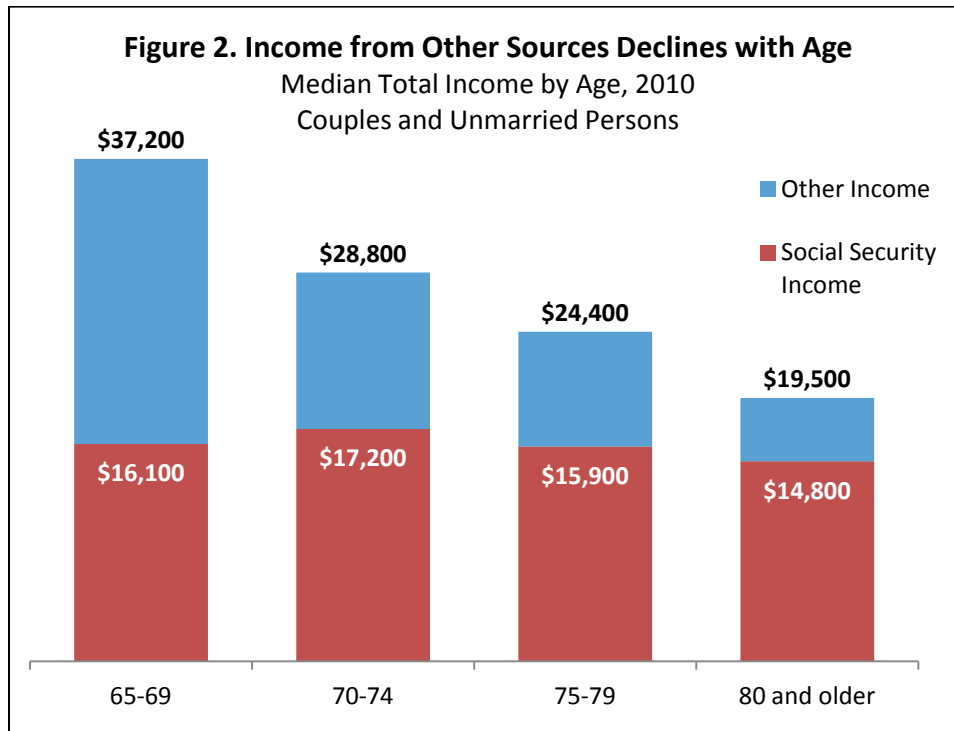
In brief, NASI’s research finds that, while the chained CPI is sometimes considered a more accurate measure of inflation for the average consumer, it understates price increases experienced by seniors and disabled Americans who make up the vast majority of Social Security beneficiaries. Here’s why. First, seniors and disabled individuals typically spend more of their budgets on health care, and prices in that sector tend to rise faster than for other goods and services; this has been true for more than three decades. Furthermore, seniors spend a rising share of their incomes on health care as they grow older. A recent study found that average health spending for older men rose from 10% of their average Social Security income at age 65 to 27% by age 89 (Figure 1). For women, health spending rose from 14% of their average Social Security income at age 65 to 37% by age 89.

It is critical that Social Security benefits keep up with the inflation that seniors actually face. This is particularly important because as seniors grow older, their other sources of income decline and they rely ever more heavily on Social Security (Figure 2).



Source: National Academy of Social Insurance. “Should Social Security’s Cost-of-Living Adjustment Be Changed?” (See endnote 1.)

Each of the proposals under consideration by the Committee to shift to the chained CPI is reported to reduce Social Security’s long-term financing gap by something less than 20%. At the same time, the cumulative losses for beneficiaries would be substantial. A National Women’s Law Center report finds that lifetime losses in Social Security benefits for an average worker would, by age 95, be nearly \$25,000.⁴



Source: Social Security Administration, *Income of the Population 55 or Older, 2010*: Tables 3.A1 and 5.A1. 2012.

NASI’s latest research on public opinion examines how Americans – across age, income, and party lines – would choose to close Social Security’s projected long-term financing gap.⁵ Large majorities agree that it is critical to preserve Social Security for future generations even if that means that working Americans pay somewhat more. Republicans (74%), Democrats (88%), and independents (83%) agree on this. When given a range of policy options, survey respondent chose to gradually raise Social Security taxes – modestly for all workers and a bit more for top earners. The preferred package also had two modest benefit improvements: inflation protection that matches what seniors face (by using the CPI-E); and, for low-paid workers with long work records, a benefit above the poverty line. (Read more in the full report, *Strengthening Social Security: What Do Americans Want?*⁶) That approach – two tax increases and two benefit improvements – would close Social Security’s 75-year financing gap and leave a modest surplus, according to cost estimates available from the website of the Social Security actuaries.

¹ Benjamin W. Veghte, Virginia P. Reno, Thomas N. Bethell and Elisa A. Walker. “Should Social Security’s Cost-of-Living Adjustment Be Changed?” Social Security Fact Sheet No. 2, April 2011. National Academy of Social Insurance. http://www.nasi.org/sites/default/files/research/SS%20Fact%20Sheet%20No.02_Should%20Social%20Security%27s%20Cost-of-%20Living%20Adjustment%20Be%20Changed.pdf

² Virginia P. Reno, Thomas N. Bethell, and Elisa A. Walker. “How Would Shifting to a Chained CPI Affect the Federal Budget?” Social Security Fact Sheet No. 3, June 2011. National Academy of Social Insurance. http://www.nasi.org/sites/default/files/research/SS_Fact_Sheet_03_Shifting_to_a_Chained_CPI.pdf

³ Virginia P. Reno and Elisa A. Walker. “How Would Seniors Fare – by Age, Gender, Race and Ethnicity, and Income – Under the Bowles-Simpson Social Security Proposals by 2070?” Social Security Brief No. 38, September 2011. National Academy of Social Insurance. http://www.nasi.org/sites/default/files/research/SS_Brief_038.pdf

⁴ Joan Entmacher and Katherine Gallagher Robbins. “Cutting the Social Security COLA by Changing the Way Inflation Is Calculated Would Especially Hurt Women.” June 2011. National Women’s Law Center. <http://www.nwlc.org/sites/default/files/pdfs/cuttingsocecsecola.pdf>

⁵ National Academy of Social Insurance. “PRESS RELEASE: Americans Make Hard Choices on Social Security, Prefer to Raise Payroll Taxes and Increase Benefits.” January 2013. <http://www.nasi.org/press/releases/2013/01/press-release-americans-make-hard-choices-social-security>

⁶ Jasmine V. Tucker, Virginia P. Reno, and Thomas N. Bethell. *Strengthening Social Security: What Do Americans Want?* January 2013. National Academy of Social Insurance. http://www.nasi.org/sites/default/files/research/What_Do_Americans_Want.pdf