



August 9, 2013

Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Committee Member,

On behalf of the Leadership Council of Aging organizations (LCAO), a coalition of national not-for-profit organizations representing over 60 million older Americans, we would like to submit the following comments regarding proposals to switch to the chained CPI for purposes of determining annual cost-of-living adjustments (COLAs) to Social Security benefits. As a coalition, we strongly oppose using the chained CPI to determine COLAs to Social Security benefits, Supplemental Security Income (SSI) benefits, military and federal civilian retirement annuities, and veterans' benefits.

Our reasons are simple and twofold. First, the chained CPI, though often touted as a more accurate measure of inflation, does not accurately reflect the spending habits of older adults. Consequently, it does not accurately measure consumer price inflation experienced by older adults. Second, the chained CPI would lead to substantial reductions in retirement income for older adults, even as the average Social Security benefit is just \$15,000 per year.

Measuring Inflation Accurately

Some claim that the chained CPI is as a more accurate measure of inflation because it takes into account how average consumers substitute one item when the price of another item increases; for example, by switching from restaurant meals to home meals when the restaurant meals become more costly. However, accounting for that type of substitution ignores the lower standard of living resulting from substituting a less desirable alternative. America's seniors are not average consumers – they often are already stretching every dollar to its fullest capacity on mandatory purchases like rent, utilities, and health care, for which there are no substitutions.

Second, the chained CPI does not accurately reflect changes in the cost of living for seniors. Seniors spend a greater percentage of their income on health care, and health care inflation has consistently outpaced inflation of other goods. Yet the chained CPI does not take this into account, as it measures inflation for the general population, not seniors.

A truly more accurate measure of inflation for seniors is the experimental consumer price index for the elderly (CPI-E), which measures the average costs of goods for Americans 62 years of age or older. The CPI-E takes into account the disproportionate amount seniors spend on health care and the more limited opportunities their patterns of consumption allow for making purchasing substitutions.

Substantial Benefit Reductions

The Chief Actuary of the Social Security Administration (SSA) estimated that using the Chained CPI instead of the current index (the CPI-W) would reduce COLAs by 0.3 percent per year. This may sound small, but it adds up substantially over time. Because this difference would compound over time, it would result in estimated yearly benefits 3 percent lower after 10 years, 6.2 percent lower after 20 years and 9.4 percent lower after 30 years.

The average Social Security benefit is only about \$15,000 per year. If a 65 year-old is fortunate to live to the age of 95, a 9.4 percent cut represents over \$1,400 in today's dollars, at a time when his or her retirement savings are likely exhausted, leaving Social Security as the sole source of income. Remarkably, such a benefit reduction amounts to more than one month's benefit for the average retiree (\$1,261 in 2013). How do America's oldest seniors make up that difference?

Supplemental Security Income

SSI offers a meager income floor to older adults, persons with disabilities and blind individuals with limited ability to work or very low incomes. By definition, anyone eligible for SSI is living under the federal poverty line--\$11,170 per year for an individual in 2012.

In 2013, the SSI program will offer our nation's most vulnerable citizens a maximum federal benefit rate of \$710 per month. In most states, this is the only income benefit provided to these beneficiaries. Application of the chained CPI to these woefully inadequate benefits would result in compounding cuts that would threaten the ability of SSI beneficiaries to stay in their homes and communities. While we acknowledge the importance of addressing the nation's long-term fiscal obligations, the solution should not increase economic vulnerability among those least able to bear the burden of spending cuts, including those seniors and persons with disabilities who rely on Social Security and SSI.

Military, Disabled Veterans, First Responders, Federal Civilian Retirees and Survivors

Military retirees, disabled veterans, and federal civilian retirees and survivors, many of whom receive no other source of income, would also have their COLAs lowered by the chained CPI.

Among those who would suffer most significant consequences of the chained CPI, ironically, are those who already have sacrificed most to protect America: former military personnel, disabled veterans, federal civilian police and firefighters. Because they begin receiving inflation-protected annuities at relatively younger ages, they may suffer the adverse compounding effects of the chained CPI over the course of many decades.

Conclusion

Almost half of the nation's workers have less than \$10,000 in savings and 30 percent have less than \$1,000. Barely half of all workers have access to retirement plans through their employment, and millions retire without enough private savings to provide an adequate income. Instead of protecting the American people against these growing retirement, disability and

survivorship risks, the chained CPI would do the opposite, by weakening the inflation protection of current and future beneficiaries.

For these reasons, the Leadership Council on Aging Organizations urges you to reject proposals to cut Social Security, SSI, military, veterans, and federal civilian retiree benefits by imposing the chained CPI on annual cost-of-living adjustments. These unjust cuts would have a devastating impact on retirees living on fixed incomes.

Sincerely,

Edward F. Coyle, Chair
Leadership Council of Aging Organizations
www.lcao.org