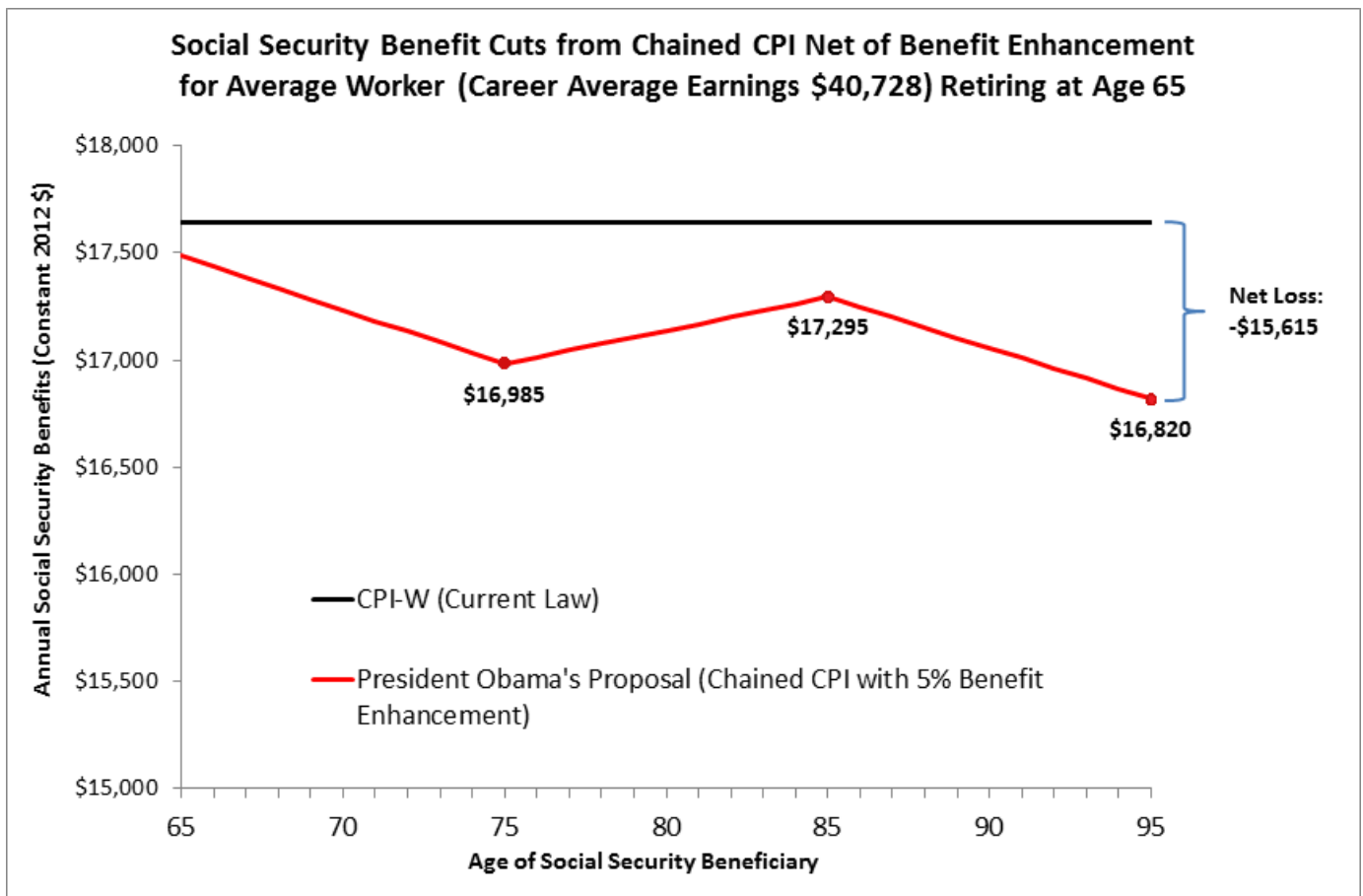


STRENGTHEN SOCIAL SECURITY

...don't cut it.

The Chained CPI Harms All Beneficiaries – Even with Benefit Enhancement at 76

To limit the harm that the chained CPI would inflict on vulnerable people, President Obama has proposed a benefit enhancement at age 76 or 15 years after a disability determination.ⁱ Unfortunately, the President’s proposed benefit enhancement fails to offset the deep cuts from the chained CPI. **Even with the enhancement, the chained CPI cuts cumulative benefits by \$15,615 for an average worker fortunate enough to live to age 95.**ⁱⁱ



Source: Authors’ calculations based on estimates of Social Security Office of the Actuary.

The table below provides more detail on the magnitude of the chained CPI cut, alone and net of the benefit enhancement.

Chained CPI Benefit Cut for Average Worker Retiring at Age 65ⁱⁱⁱ

Age of Beneficiary	Chained CPI Cut		Chained CPI Cut Net of Benefit Enhancement from Age 76-85	
	Annual Cut	Cumulative Cut	Annual Cut	Cumulative Cut
75	\$658	\$4,642	\$658	\$4,642
85	\$1,147	\$13,921	\$347	\$9,521
95	\$1,622	\$28,015	\$822	\$15,615

CONCLUSION

There is no policy, including the President’s proposed benefit enhancement, that would truly protect vulnerable people from the chained CPI without significantly limiting the savings that the chained CPI achieves.^{iv} Switching to the chained CPI would harm virtually all beneficiaries and is a less accurate measure of inflation experienced by the elderly. It cuts benefits more with each passing year, hitting those who are the most vulnerable—seniors in late old age and people with longtime disabilities—the hardest. Rather than create a complicated new policy to soften the blow of the chained CPI, President Obama should withdraw the chained CPI from budget negotiations altogether.

ⁱ After enduring 14 years of benefit reductions, at 76 a beneficiary would receive an enhancement amounting to 5 percent of the average retired worker benefit, which currently amounts to \$800, phased in over 10 years. White House, Office of Management and Budget (OMB), “Chained CPI Protections,” April 2013. <http://www.whitehouse.gov/omb/budget/factsheet/chained-cpi-protections> The Administration has proposed an additional benefit enhancement from age 95 phased in gradually over 10 years; given how few seniors live to age 104, we have chosen not to incorporate this into our analysis here.

ⁱⁱ Reduction in benefits due to chained CPI: Social Security Administration Chief Actuary, “Effects on Social Security Financial Status and on Benefit Levels of Two Potential Modifications to the Automatic Annual Cost of Living Adjustment (COLA) Requested by Representative Xavier Becerra,” June 21, 2011. http://ssa.gov/oact/solvency/XBecerra_20110621.pdf Chained CPI reduces the benefit growth rate by 0.3 percentage-points per year, on average. The annual difference in benefits compounds over time, however, since under the chained CPI rate, the smaller COLA is added to a benefit base that grows smaller relative to current CPI-W benefits with every passing year. Analysis assumes chained CPI has been in effect for 3 years when worker claims benefits at age 65, since COLAs are applied from the first year of eligibility onward (age 62 for retirees). Projected benefits for a worker with average earnings claiming benefits at age 65 from: SSA, Table 2.A26, *Annual Statistical Supplement, 2012*, February 2012. <http://www.ssa.gov/policy/docs/statcomps/supplement/2012/2a20-2a28.html#table2.a26> The Primary Insurance Amount (PIA) for a retired worker with career average earnings equivalent to the Average Wage Index (AWI) was reduced 6.7% to account for worker claiming benefits at age 65.

ⁱⁱⁱ Authors’ calculations based on estimates of Social Security Office of the Actuary, *Ibid*.

^{iv} An analysis by Social Security Works showed that exempting veterans and their family members, people aged 85 or older, and people with incomes under 125 percent of poverty from chained CPI would eliminate more than half of the measure’s savings. Social Security Works, “The Infeasibility of Protecting Vulnerable Populations from the Chained CPI,” March 2013. http://www.strengthensocialsecurity.org/sites/default/files/The_Infeasibility_of_Protecting_Vulnerable_Populations_from_the_Chained_CPI.pdf