# The Chained CPI-U Proposal: A Devastating Benefit Cut For Latino Seniors

Prepared by:


Latinos for a Secure Retirement

In consultation with Social Security Works


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www.latinosforasecureretirement.org

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# A Devastating Benefit Cut For Latino Seniors

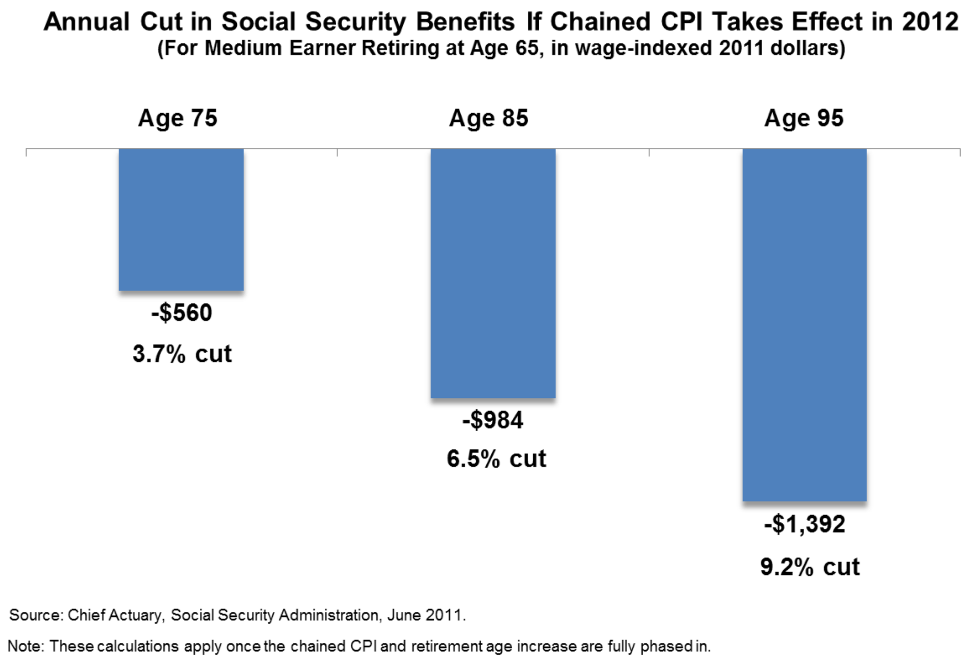
Recently, the media has reported that some Washington politicians are prepared to permanently cut the Social Security COLA (Cost of Living Adjustment) as part of the debt ceiling negotiations. This is despite the fact that Social Security is an independent, "off-budget" program with its own dedicated revenue source that has never contributed a single penny to the national deficit. This benefit cut is called the chained CPI-U. It is being presented as a minor technical change, but it would slash benefits of all beneficiaries, including current retirees, disabled workers, orphans and others. This proposed cut is a threat to the financial security of every American who relies, or will rely, on Social Security.

Currently, the Social Security COLA is calculated using the CPI-W. This measures the inflation experienced by urban wage earners and clerical workers, about a third of the overall American population. Since 1999, the CPI-W has accounted for consumer substitution of goods within the same category. This means the current COLA already reflects consumers' preference in buying fewer items rising in price versus cheaper alternatives (for example, buying Pepsi if the price of Coke goes up).

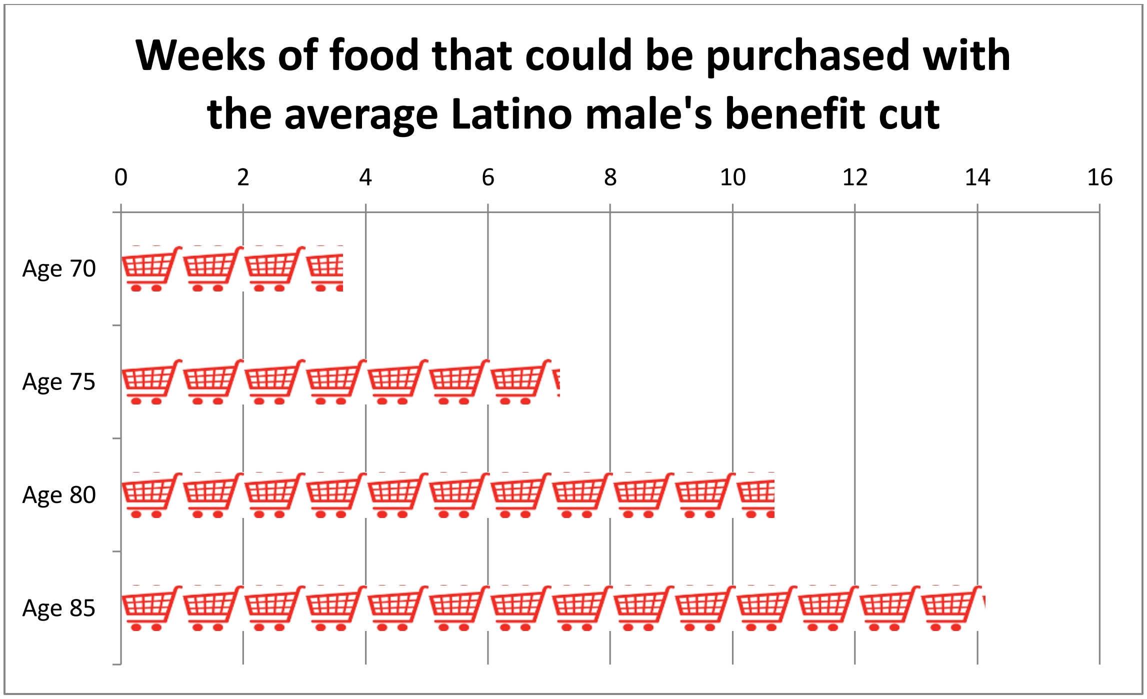
Opponents of Social Security would like to replace the CPI-W with a new measurement known as the chained CPI-U. The (unchained) CPI-U was created in 1978 and is currently used to index personal income tax brackets and poverty thresholds. The chained CPI-U adds additional measurements based on the premise that when costs of certain products go up, people will substitute by buying a dissimilar good. For example, if the price of food rises and the price of gasoline decreases, it assumes people will buy less food and more fuel. Unfortunately, because the chained CPI-U requires extensive data collection on changing spending patterns, it is not available until about two years after the end of the measurement period.[i]

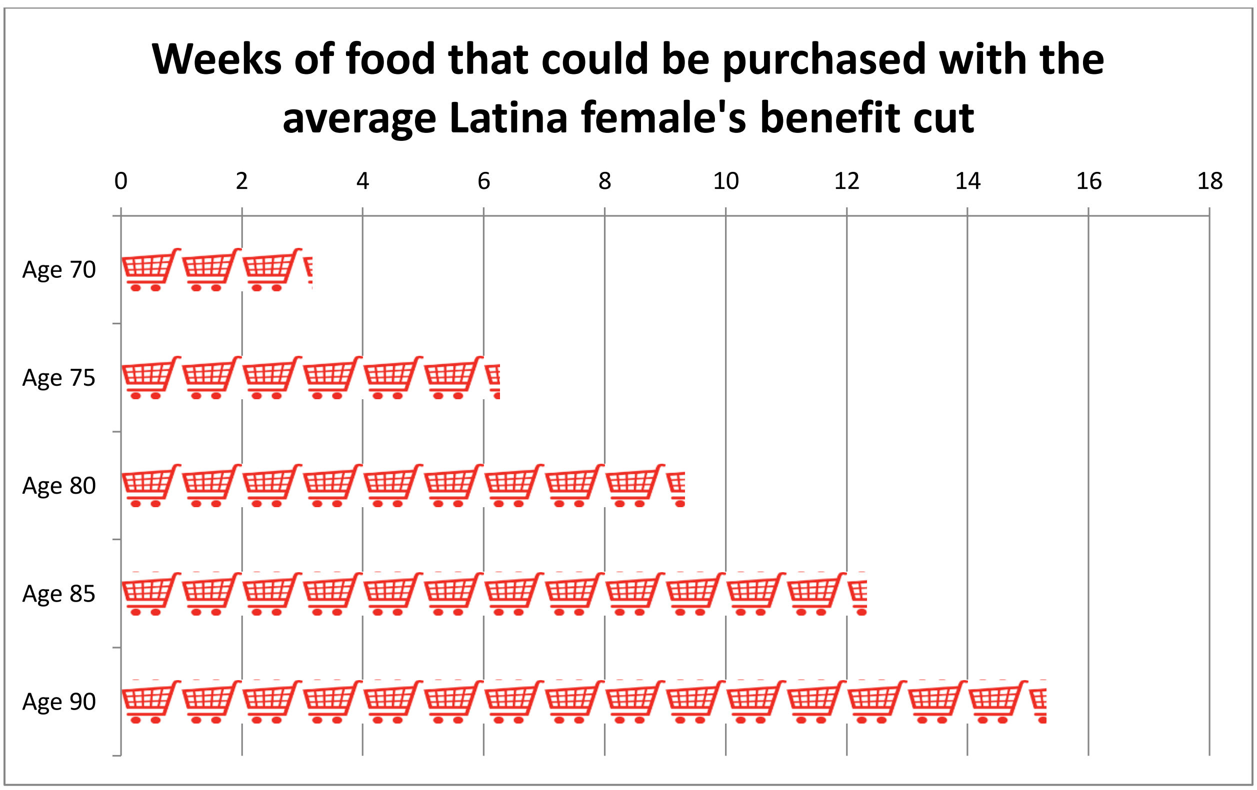
Syl Scheiber, a proponent of using the chained-CPI, testified before the House Ways and Means Committee that the chained CPI-U means, "If the price of a Mercedes goes up, that maybe you don't buy a Mercedes, you switch and buy an Audi or something.[ii]" Though this would be a substitution of a similar product already measured by the current CPI-W, the more important thing for policy makers to consider is the drastically different set of choices facing Latino seniors. The average benefit for Latino male seniors is $12,213 and only $9,536 for Latina women seniors. These Social Security benefits make up nearly all the income for almost half, 44.2 percent, of Latino elderly households and represent 75.4 percent of the total income of Latino elderly households receiving benefits. According to an 84-year old widow in Medford, Oregon who gets virtually all of her income from Social Security: "I can't afford meat anymore, but every once in a while if I see a great bargain, I'll splurge on a small piece of meat. There's a special discount cheese that I like. I make very thin slices…." Any cut to such modest benefits would cause an extreme hardship for Latino elderly.

The negative impact of the chained CPI-U will hit seniors immediately, but the reduction is further compounds year by year.  This means the benefit cut will be greatest for those receiving benefits for the longest time, as demonstrated by the chart below.  Hispanic-Americans, who are more likely to be disabled and who have longer life expectancies than other demographic groups, would be especially hurt.  While Hispanic males' life expectancy at birth is 77.9, their life expectancy once they reach the age of 65 is 84.[iii] Hispanic women's life expectancy at birth is 83.1 years, and 86.7 once they reach 65.[iv]




As shown in the chart above, if the chained CPI-U is adopted the average earner retiring at age 65 would get a $560 cut each year at age 75, and an almost $1,000 cut by age 85. By age 95, when Social Security benefits are probably needed the most, that person faces a staggering 9.2 percent cut.[v]  For Latinos, who have lower average benefits and longer life expectancies, these cuts would be devastating.  The charts below show the average amount of purchasing power that would be lost by Latino men and women if the chained CPI-U was adopted.

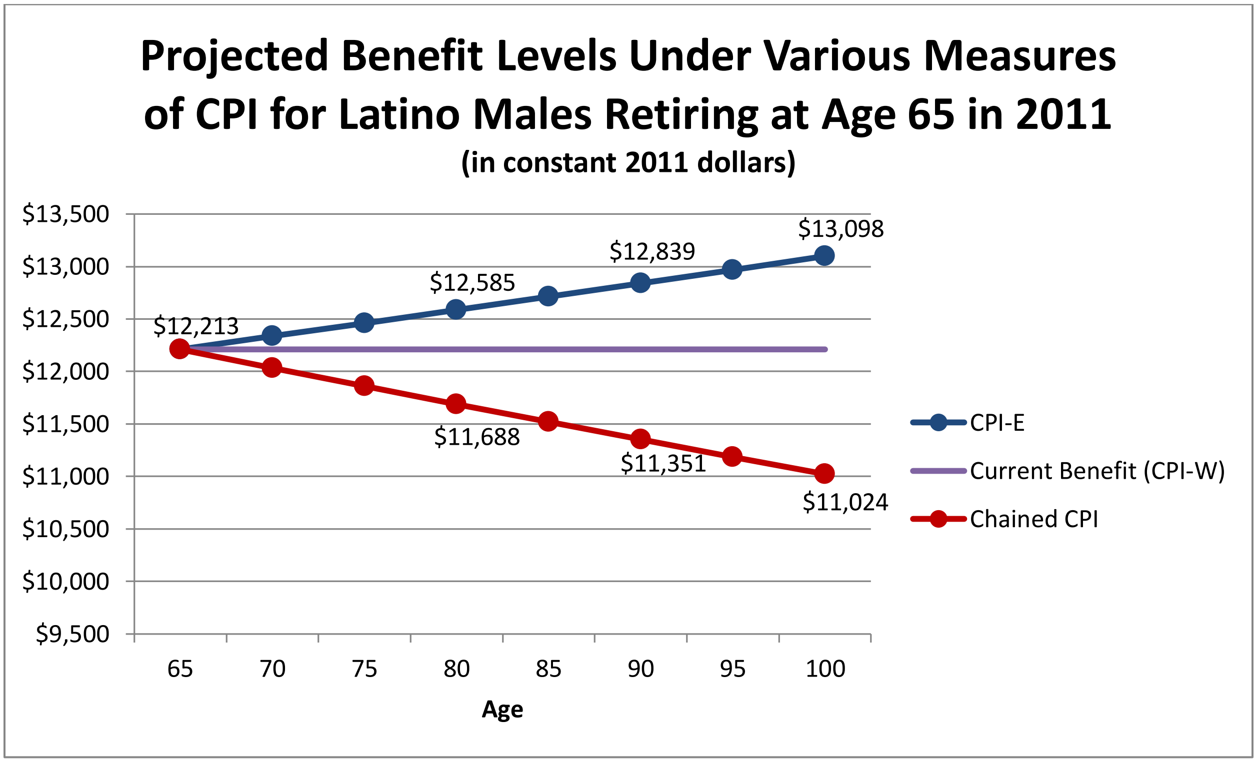


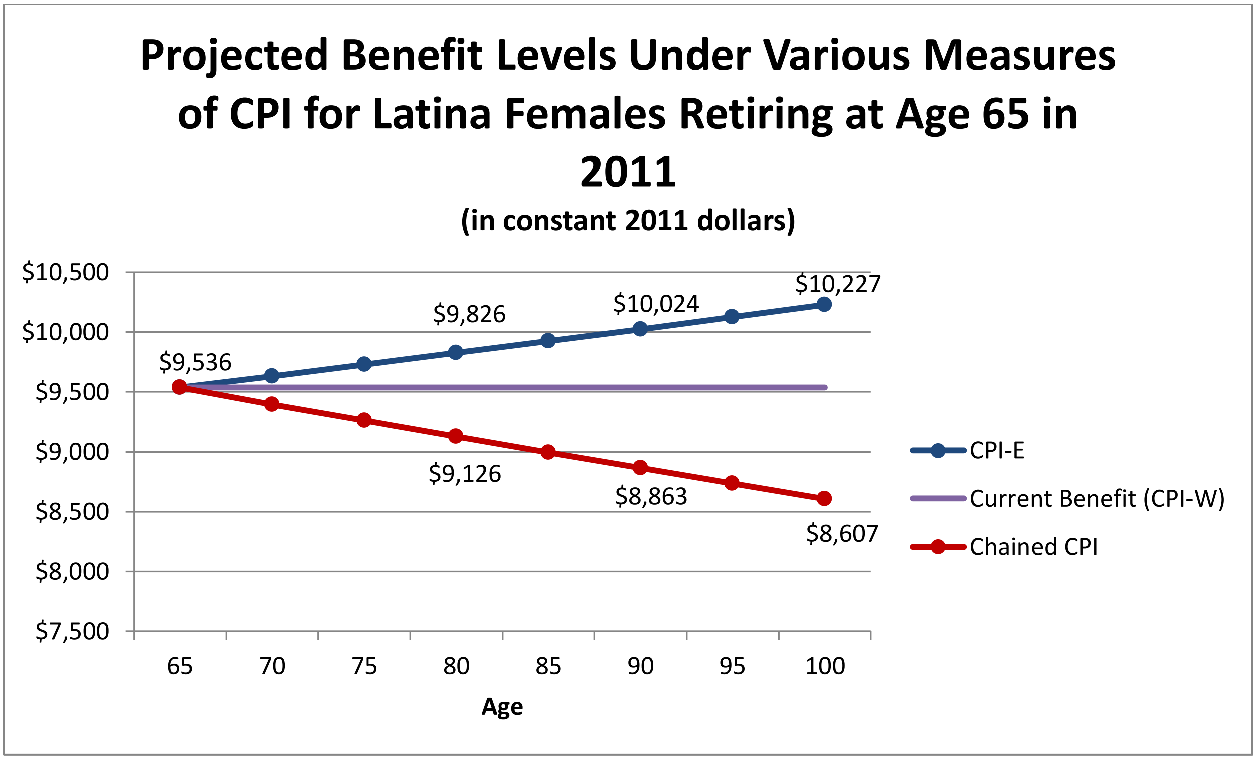




The chained CPI-U (and for that matter the current CPI-W) is flawed because elderly Social Security beneficiaries' spending patterns are very different from younger wage earners. The elderly on average have lower incomes and about 27% lower expenditures than other households.[vi] Furthermore, health care costs make up a significantly higher share of expenditures for elderly. Over the past decade, health care costs have been rising far above the rate of inflation.

## The Solution

In contrast to the proposed chained CPI-U, there is a measurement that provides a more accurate gauge of the inflationary pressures on seniors known as the CPI-E (short for Experimental Consumer Price Index for the Elderly). The CPI-E was developed by the government in 1988 to measure inflation based on the spending patterns of elderly Americans over the age of 62. This CPI-E more accurately demonstrates the rising costs faced by seniors and should be used for calculating the COLA for Social Security benefits. As the charts below shows, the CPI-E rises at a slightly faster rate than the current formula (CPI-W), and at a much faster rate than the chained-CPI.






Rep. Ted Deutch (D-FL) has introduced legislation, the Preserving Our Promise to Seniors Act (H.R. 539) that would adopt this more accurate measurement of inflation faced by seniors. This benefit enhancement is fully funded, and also includes provisions to eliminate the projected 75-year shortfall. Latinos for a Secure Retirement endorses such an approach and urges Congress to adopt the CPI-E for Social Security beneficiaries.

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[i] National Academy for Social Insurance policy brief, "Should Social Security's Cost-of-Living Adjustment Be Changed?" April, 2011. Available at: http://www.nasi.org/sites/default/files/research/SS%20Fact%20Sheet%20No.02_Should%20Social%20Security%27s%20Cost-of-%20Living%20Adjustment%20Be%20Changed.pdf

[ii] House Ways and Means Social Security Subcommittee hearing on Social Security Finances. July, 2011. Available at: http://waysandmeans.house.gov/Calendar/EventSingle.aspx?EventID=249611

[iii] WebMD, "Hispanics Have Highest Life Expectancy In U.S." October, 2010. Available at: http://www.webmd.com/healthy-aging/news/20101014/hispanics-have-highest-life-expectancy-in-u-s

[iv] Ibid.

[v] Analysis of data from the Social Security Administration Chief Actuary contained in a letter to Rep. Xavier Becerra, June 21, 2011. Available at: http://ssa.gov/oact/solvency/XBecerra_20110621.pdf

[vi] National Academy for Social Insurance policy brief, "Should Social Security's Cost-of-Living Adjustment Be Changed?" April, 2011. Available at: http://www.nasi.org/sites/default/files/research/SS%20Fact%20Sheet%20No.02_Should%20Social%20Security%27s%20Cost-of-%20Living%20Adjustment%20Be%20Changed.pdf