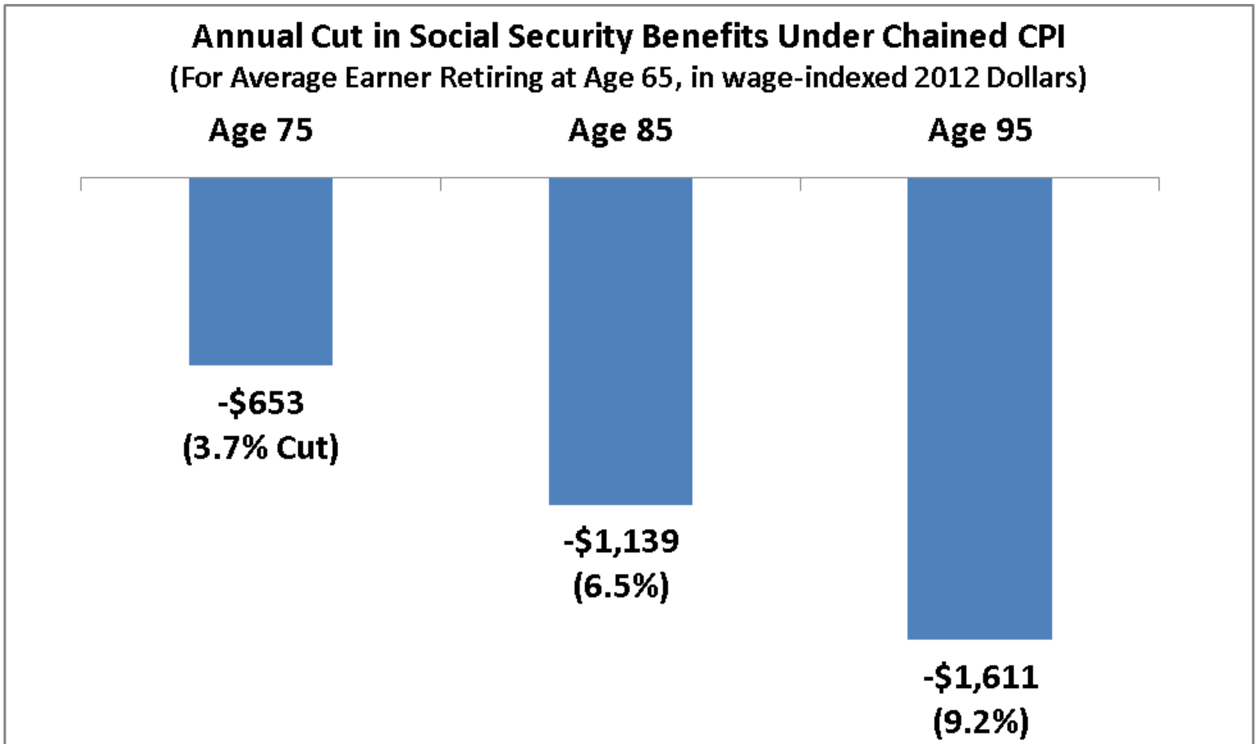
STRENGTHEN SOCIAL SECURITY
...don't cut it.

Social Security COLA Cut: A Benefit Cut Affecting Everyone

Some politicians in Washington are preparing to cut your Social Security COLA for good – even after two years without getting a cost of living adjustment. This COLA cut has an obscure name – the chained-CPI – but it would do real damage by changing the formula used to calculate the COLA. The important thing to know is that this change would cut the benefits of **all** beneficiaries, including current retirees, disabled workers, and others – even after politicians promised repeatedly that any changes to Social Security would not affect current beneficiaries. The COLA cut is a real threat to the financial security of every American who does currently or will rely on Social Security.

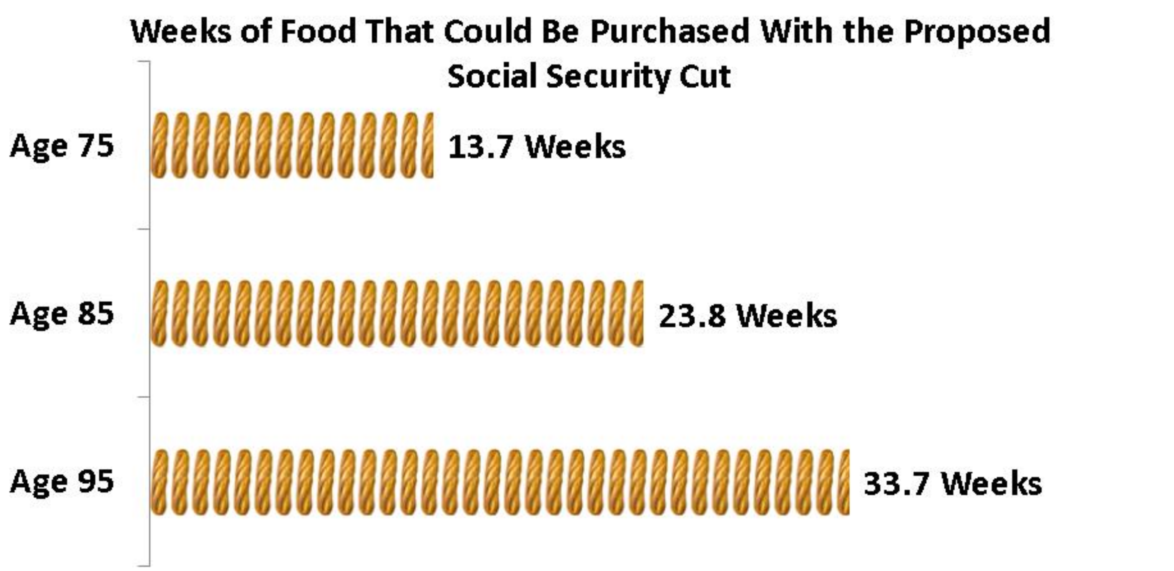


Source: Chief Actuary of Social Security Administration, September 2012. Note: These calculations assume the chained CPI has been in effect for 3 years, which, as of this year, would be 2015.

The Congressional Budget Office (CBO) estimates that switching to the chained-CPI could save the government $217 billion over ten years by reducing Social Security, veterans and other benefits, and by increasing revenues. More than half of this amount – $112 billion – would come from Social Security alone.[1]

These earned benefits would be taken directly from beneficiaries, as the chart above shows. The average earner retiring at age 65 would get a $653 cut each year at age 75, and an almost $1,139 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.[2] The chained-CPI will cut $1.6 trillion over Social Security's 75-year valuation period – mainly from the oldest of the old, primarily women and disproportionately poor.[3]

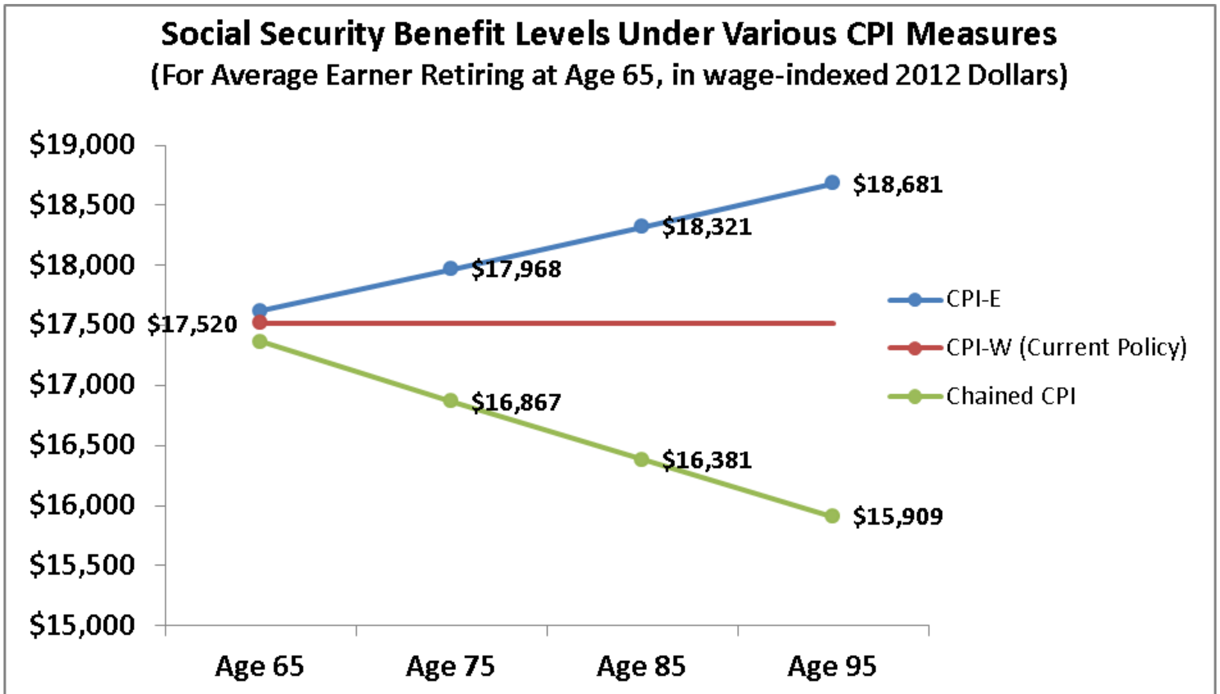
The COLA cuts are real and get deeper every year, so they have the biggest impact when Social Security benefits are needed the most, usually in old age when other sources of income have been used up. As the chart above below shows, the amount lost by age 85 is more than the amount of money a senior would spend on food in five months.



Source: USDA, "Official USDA Plans: Cost of Food at Home at Four Levels, U.S. Average, September 2012," October 2012. Food costs estimated at $47.85/week, an average of costs for women and men age 71+ on the low-cost plan. Benefit reductions from Chief Actuary of Social Security Administration, September 2012. Note: These calculations assume the chained CPI has been in effect for 3 years, which, as of this year, would be 2015.

We need a higher COLA, not a lower one. The current COLA formula does not take into account the greater proportion of income that seniors and people with disabilities spend on health care. Adopting the chained-CPI would make matters even worse. Instead, Social Security should use a formula that takes account of these differences called the CPI-E (Experimental CPI for the Elderly).

As the chart 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. Compared with the CPI-E, the chained-CPI registers even bigger losses over time – about *$2,771 a year* by age 95. Switching to the CPI-E is a much more accurate way to measure the Social Security COLA without cutting current benefit levels.



Source: Chief Actuary of Social Security Administration, September 2012. Note: These calculations assume the chained CPI has been in effect for 3 years, which, as of this year, would be 2015.

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[1]Congressional Budget Office, "Reducing the Deficit: Spending and Revenue Options," March 2011. http://www.cbo.gov/ftpdocs/120xx/doc12085/03-10-ReducingTheDeficit.pdf

[2] Analysis of data in Social Security Administration Chief Actuary, "Estimated Financial Effects of a Proposal to Restore 75-Year Solvency for the Social Security Program Requested by Senator Kay Bailey Hutchison," September 12, 2012. http://ssa.gov/oact/solvency/KHutchison_20120912.pdf

[3] Social Security Administration Chief Actuary, private correspondence with Nancy Altman, Co-Chair, Strengthen Social Security Campaign, June 30, 2011.