

STRENGTHEN SOCIAL SECURITY

...don't cut it.

Social Security and SSI COLA Cuts Will Have a Big Effect on People with Disabilities

Some politicians in Washington are preparing to cut the cost-of-living adjustment (COLA) for all current and future Social Security *and* Supplemental Security Income (SSI) beneficiaries – even after two years without either program giving a COLA.

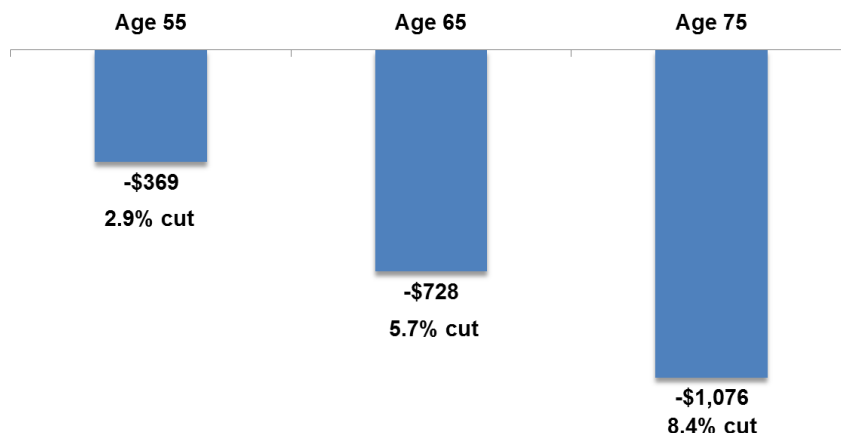
This COLA cut has an obscure name – the chained CPI. It would do real damage by changing the consumer price index (CPI) formula used to calculate the annual COLA. This change would cut significantly the benefits of **all** current and future Social Security and SSI beneficiaries, especially people with disabilities. If anything the annual COLA should be increased, not decreased, because the current COLA formula does not take into account the increased share of income that people with disabilities spend on health care.

The Congressional Budget Office (CBO) estimates that switching to the chained CPI would save \$208 billion over ten years by reducing Social Security, disability, and other benefits, and by increasing revenues. More than half of this amount – \$112 billion – would come from Social Security alone.¹ Up to \$9 billion would be cut from SSI and other smaller programs with COLAs.² That's \$121 billion out of the pockets of beneficiaries over 10 years.

Effect of the COLA Cut on Social Security Disability Benefits

More than 10.4 million disabled workers and their family members depend on Social Security disability benefits, with disabled workers getting an average benefit of less than \$13,000 per year.³ The COLA cut would significantly reduce their earned benefits. Someone who begins receiving the average disability benefit at age 45 would get a \$369 benefit cut at age 55, and a \$728 cut by age 65. By age 75, when Social Security benefits are probably needed the most, that person faces a loss of over \$1,000, an 8.4 percent cut.⁴

Annual Cut in Social Security Disability Benefits If Chained CPI Takes Effect in 2012
(For Someone Starting to Receive Average Benefits At Age 45, in wage-indexed 2011 dollars)



Source: Analysis of data from the Social Security Administration Chief Actuary contained in a letter to Rep. Xavier Becerra, June 21, 2011. Disability benefit amounts are taken from the average monthly disability benefit for 2010, available at <http://www.ssa.gov/OACT/ProgData/icp.html>. Note: These calculations apply once the chained CPI and retirement age increase are fully phased in.

It may be easier to understand the effects of the COLA cut by looking at how many weeks of groceries a typical disabled beneficiary could purchase with the amount of money lost in just a single year, at age 55, age 65 and 75.



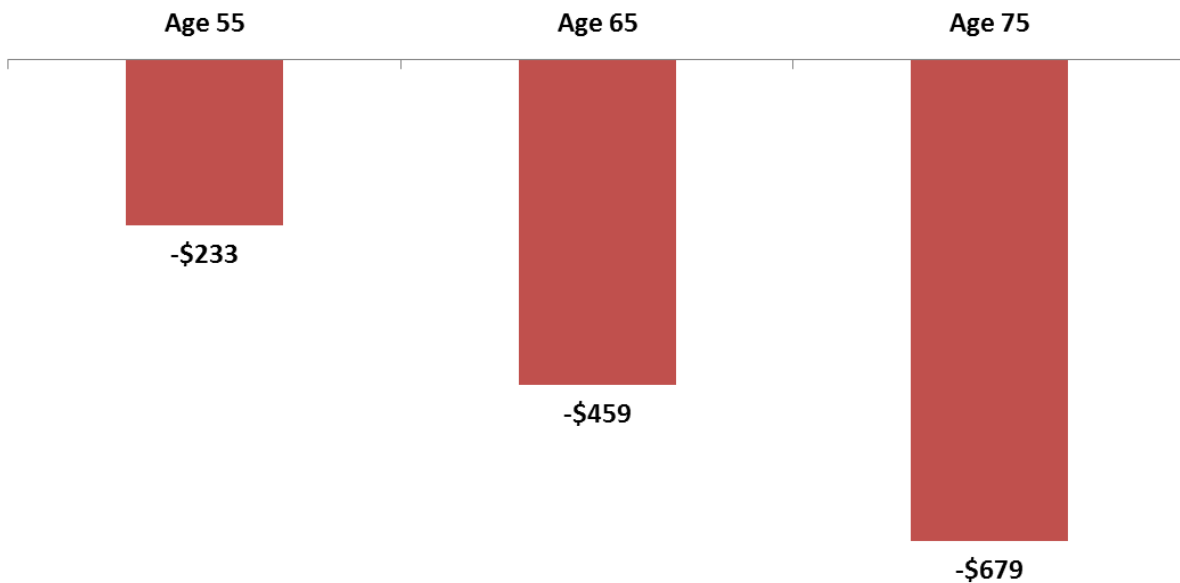
People with disabilities, many of whom receive Social Security disability and SSI benefits, would experience a double hit, since both of their income sources are affected by the COLA cut.

Effect of the COLA Cut on SSI Beneficiaries

There are 8.1 million people receiving SSI benefits, with three-quarters eligible because they have very low incomes and experience a physical or mental impairment that is expected to last at least 12 months, or possibly result in death.⁵ A single person who receives SSI benefits has an annual income of \$8,088.⁶

As the chart below shows, an SSI beneficiary who started receiving benefits at age 45 would see their overall income drop by \$233 a year after ten years, and by over \$650 at age 75. These cuts would come *in addition* to the larger cuts to their Social Security disability benefits described above. Given the long periods of time that some people with disabilities collect SSI benefits, and the program's modest benefits, the combined cuts would have a significant impact on beneficiaries. For those whose disabilities occurred well before retirement age, the effects of the chained CPI would be most pronounced.

**Change in Annual Income for Current SSI Beneficiaries
Receiving Benefits At Age 45 if Chained-CPI Took Effect in 2012
(in constant 2011 dollars)**



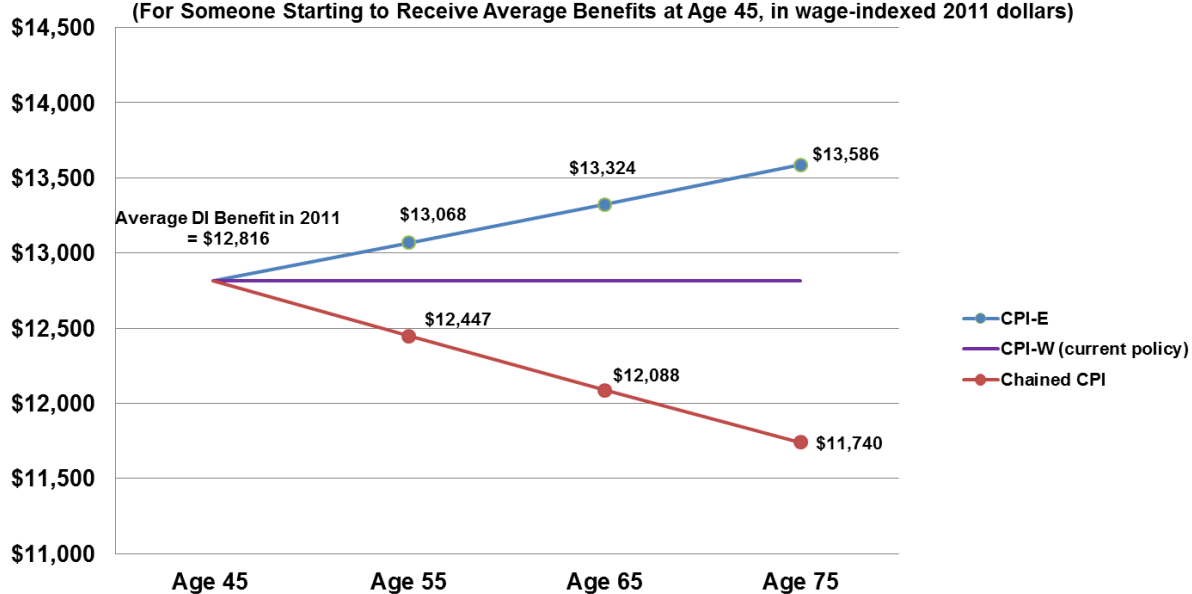
Source: Analysis of data in Social Security Chief Actuary, Letter to Rep. Becerra, June 21, 2011. Note: This analysis refers to individuals who receive federal SSI benefits without state supplementation at the 2011 rate of \$674/month, and who are not drawing other income from current employment.

COLAs Should be Increased, not Reduced

Those Americans dependent on Social Security and SSI benefits need a higher COLA, not a lower one. The current COLA formula does not take into account the greater proportion of income that people with disabilities spend on health care. Many disabled Americans have medical needs and expenses that arise years before many other people. Adopting the chained CPI would make matters even worse. Instead, when computing the annual COLA, Social Security and SSI should use the CPI-E (Experimental CPI for the Elderly), a Bureau of Labor Statistics formula that takes account of these higher health care costs.

As the chart below shows, the CPI-E rises at a slightly faster rate than the formula (CPI-W) currently used to determine the Social Security and SSI COLAs, and at a much faster rate than the proposed chained CPI. Compared with the CPI-E, the chained CPI would result in even bigger cuts – for a disabled worker receiving the average benefit at age 45, about \$1,800 a year in Social Security Disability Benefits by age 75. Switching to the CPI-E is a more accurate way to measure the COLA for both Social Security and SSI, and it will do a better job of assuring that benefits maintain their purchasing power no matter how long someone lives.

Social Security Disability Benefit Levels Under Various CPI Measures



Source: Chief Actuary, Social Security Administration, June 2011.

Note: These calculations apply once the chained CPI and scheduled increase in the retirement age to 67 are fully phased in.

Social Security does not contribute a penny to the federal deficit and its benefits should not be cut to reduce the deficit. Most Americans receiving SSI benefits are barely getting by; they cannot afford to have their benefits reduced through a COLA cut. Instead, Social Security and SSI benefits should be increased through a more generous COLA that accounts for the higher health care costs of seniors and people with disabilities. The federal budget should not be balanced on the backs of Americans that need help the most.

¹ Congressional Budget Office, "Reducing the Deficit: Spending and Revenue Options," March 2011, p. 58.

<http://www.cbo.gov/ftpdocs/120xx/doc12085/03-10-ReducingTheDeficit.pdf>

² National Academy of Social Insurance, "How Would Shifting to a Chained CPI Affect the Federal Budget?," June 2011, p. 2.

http://www.nasi.org/sites/default/files/research/SS_Fact_Sheet_03_Shifting_to_a_Chained_CPI.pdf

³ Social Security Administration (SSA), "Fact Sheet on the Old-Age, Survivors, and Disability Insurance Program," June 30, 2011.

<http://www.ssa.gov/OACT/FACTS/>

⁴ Analysis of data from the Social Security Administration Chief Actuary contained in a letter to Rep. Xavier Becerra, June 21, 2011. http://ssa.gov/oact/solvency/XBecerra_20110621.pdf. Disability benefit amounts are from: Social Security Statistical Supplement 2010, Table 6.C1. <http://www.ssa.gov/policy/docs/statcomps/supplement/2010/6c.pdf> Note: These calculations apply once the chained CPI and retirement age increase are fully phased in. The numbers are computed using wage-indexed 2011 dollars because they inflate slower than constant dollars and give a more accurate representation of the purchasing power of benefits. Measuring the growth of benefits in terms of wages is a more meaningful measure of inflation than a CPI value. Taxes are also wage-indexed in this way.

⁵ SSA, "Monthly Statistical Snapshot, May 2011." http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/ There were 8.1 million SSI beneficiaries of which 5.3 million were receiving SSI benefits only and 2.8 million were receiving SSI and Social Security benefits. Of those beneficiaries who were disabled, 4.4 million were receiving SSI benefits only and 1.6 million were receiving both SSI and Social Security benefits. Definition of disability comes from Social Security Ruling 82-52, 1980.

http://www.ssa.gov/OP_Home/rulings/di/01/SSR82-52-di-01.html

⁶ SSA, "Understanding Supplemental Security Income: SSI Benefits," 2011. <http://www.ssa.gov/ssi/text-benefits-ussi.htm> This figure is calculated by multiplying the monthly federal benefit amount of \$674 for an individual (i.e. the amount to which SSI will raise a person's income) by twelve.