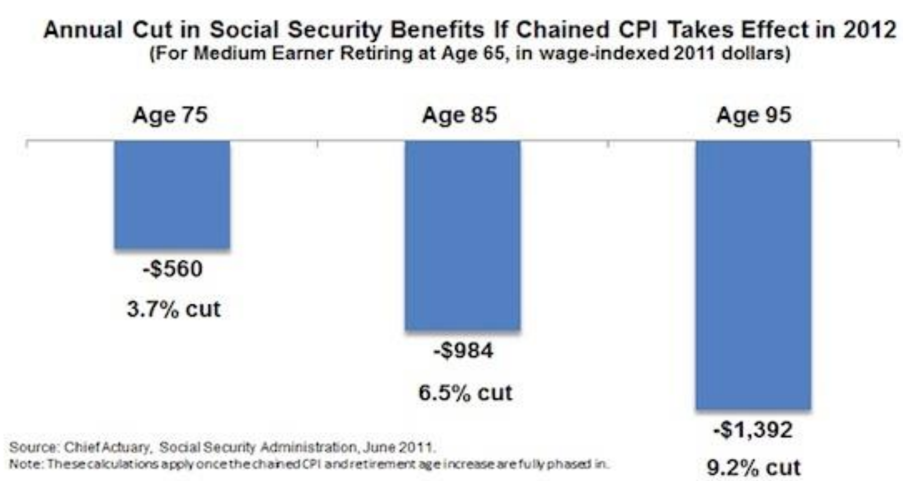
# The Chained CPI:
## Cutting your Social Security COLA
Fact Sheet

Social Security's cost-of-living adjustments (COLA) to monthly benefits are designed to help retirees keep up with the rising living standards and costs. COLAs currently are tied to the Consumer Price Index for Urban Wage Earners (CPI-W), which surveys price changes in the average set of goods purchased by urban wage earners and clerical workers.

The CPI-W formula does not protect seniors' purchasing power because it fails to account for the fact that seniors spend two to three times as much of their budget on medical care than younger households. Yet, many in Congress are seriously considering cutting your Social Security benefits by now tying the COLA to the Chained CPI (C-CPI-U), a smaller measure of inflation. While many will describe this change as simply technical, it is a change that would result in big, lifetime losses in benefits for the average Social Security beneficiary.

## Why is the Chained CPI bad for seniors?

According to the Social Security Actuary, moving to a chained CPI would mean an immediate benefit cut. According to Social Security Works, an average earner retiring in 2011 at age 65 would lose over $6,000 over 15 years if the chained CPI were adopted. The chained CPI assumes that a lower COLA is acceptable because consumers substitute cheaper products when prices go up. Health care costs, however, consume a large amount of seniors' income. These costs cannot simply be substituted with a cheaper version. A senior cannot just substitute triple bypass surgery with a double because it's cheaper. The chained CPI ignores this reality and instead tries to balance the budget on the backs of our nation's seniors.



Alliance for Retired Americans

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## What Should I Tell My Friends about the Chained CPI?

Politicians in Washington are using the deficit as an excuse to cut Social Security behind closed doors and in a way they think we won't notice or understand!

- **It's an immediate Social Security benefit cut!** It's not just a simple technical change without any impact – it's an immediate, real cut to the benefits you have earned every year into the future.
- **It is NOT just a small benefit cut!** Switching to a chained CPI would compound benefit reductions dramatically over time, resulting in an annual benefit that is roughly **$1,000 (2012 dollars) lower** by the time a beneficiary reaches age 85.
- **We need a higher COLA – not a lower one!** The current COLA is not enough – it does not accurately account for large health care cost increase faced by seniors and people with disabilities.

Figure 2. Weeks of food lost annually from chained CPI, single elderly woman with monthly benefit of $1,100


Source: NWLC calculations based on CPS 2010, Office of the Chief Actuary's Memo, Dec. 1, 2010, and Elder Economic Security Standard Index.
1 Empty Grocery Cart=1 Week of Food ($53 value in $2010)

## Is there a better alternative?

Yes! Senator Tom Harkin's (D-IA) bill, called the Strengthening Social Security Act of 2013, S. 567, would require the establishment of a price index that accurately reflects costs for Social Security beneficiaries, among other improvements. Called the Consumer Price Index for the Elderly (CPI-E), this alternative would be used when computing increase in the COLA and would consider typical seniors' costs, including medical care and housing costs to ensure that seniors' Social Security benefits keep pace with inflation. 7/18/13