

The Chained CPI Cuts
Social Security and SSI:
What Disability Advocates Need to Know

National
Policy
Matters



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The Chained CPI Cuts Social Security, SSI, and other Vital Programs

Introduction

With Congress gearing up for more “fiscal cliff” battles this year, The Arc is concerned about threats to Social Security and Supplemental Security Income (SSI). These lifelines provide essential financial security for millions of Americans, including people with intellectual and developmental disabilities (I/DD). The Arc believes that Social Security and SSI should not be part of deficit reduction, and that any changes to these systems must be carefully evaluated in terms of their effects on beneficiaries. This issue of **National Policy Matters** looks at one major threat to Social Security and SSI, the chained Consumer Price Index (“chained CPI”).

- The chained CPI cuts Social Security and SSI benefits by reducing annual cost of living increases. Cuts add up significantly over time and would disproportionately harm people with disabilities.

- The chained CPI also cuts veterans pensions and certain military and civilian retirement benefits, and would limit eligibility for over 30 vital programs such as Head Start and the Low-Income Home Energy Assistance Program.
- The chained CPI has been considered as part of most major deficit reduction proposals over the last several years, and has at different times been supported by Members of Congress from both political parties and by the White House.
- The public strongly opposes cutting Social Security, including through the chained CPI.

Social Security & SSI: Lifelines for People with Disabilities

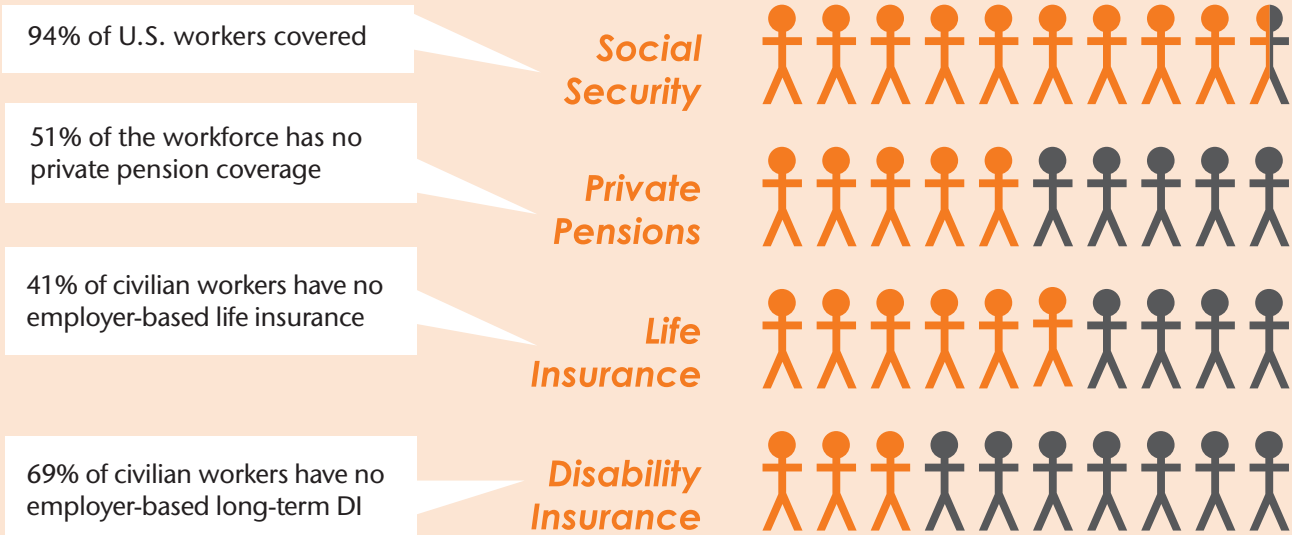
What is Social Security?

In the *words* of President Franklin Delano Roosevelt, our nation’s Social Security system was designed to provide for “*security of the men, women, and children of the Nation against certain hazards and vicissitudes of life.*” To accomplish this, Social Security provides income insurance that protects workers, their dependents, and survivors from poverty when a worker retires, dies, or loses the ability to engage in substantial work due to a significant disability. Nearly **57 million** people, or 1 in 5 Americans, receive Social Security Old Age, Survivors, and Disability Insurance (OASDI) benefits.



President Franklin Delano Roosevelt signs the Social Security Act of 1935.

Social Security vs. Private Pensions and Insurance



Sources: *Social Security Administration* and *Bureau of Labor Statistics*.

Social Security is financed by two dedicated Trust Funds, funded by payroll contributions paid by workers and their employers. People pay into Social Security during their working years, and generally become fully insured un-

der the system after about 10 years. Benefits are based on workers' average earnings during their years of work.

Social Security and SSI Beneficiaries as of Jan. 2013

Social Security:

- Over **56.9 million** beneficiaries
- Over **10 million** beneficiaries who qualify due to a disability
 - 8.8 million disabled workers
 - 255,000 disabled widow(er)s
 - 1 million **disabled adult children**
- About **2 million** children and spouses of disabled workers

SSI:

- Over **8 million** beneficiaries
 - 1.3 million disabled children under 18
 - 4.8 million disabled adults 18 to 64
 - 2.1 million seniors 65 and older

Why is Social Security necessary?

Social Security provides protections that most American workers cannot get from another source. Social Security insures nearly all U.S. workers for retirement, death, or a qualifying disability, but access to these types of insurance in the private sector is far less widespread.

What is Supplemental Security Income (SSI)?

Congress created SSI in 1972 to provide basic income support for low-income seniors and people with significant disabilities, to protect against poverty and help beneficiaries meet basic needs.

SSI is reserved for people with very low incomes and very limited assets (no more than \$2,000 for an individual or \$3,000 for a couple). Unlike Social Security, SSI has no requirement for a prior work history or prior contributions, as SSI is funded by general revenues.

Over **8 million** people receive SSI.

How do people with disabilities access Social Security and SSI?

People who qualify for Social Security or SSI on the basis of a disability must meet the Social Security Act's strict disability standard. They must have a severe disability that is expected to last one year or result in death, and that prevents them from engaging in substantial work, defined as earnings at or above the "substantial gainful activity" level, or *SGA level* (\$1,040 per month in 2013).

Additionally, many people with disabilities access the Social Security system in the same way as people without disabilities. This includes people with disabilities who worked during their adult years and now receive retirement benefits. This also includes people with disabilities who receive benefits because they are a spouse or dependent child of a worker who is retired, disabled, or deceased.

What parts of Social Security and SSI are important to people with disabilities?

All parts of Social Security and SSI are important to people with disabilities, who may access different benefits at different times in their lives. For example, a child may receive Social Security survivor's benefits after a parent dies, and then leave the system as an adult and work for many years. Later in life, that same person may reenter the system after acquiring a significant disability, and ultimately may transition to retirement benefits as a senior.

How are Social Security and SSI lifelines for people with disabilities?

Social Security and SSI benefits are modest, but play an essential role in helping beneficiaries preserve a basic living standard and alleviating poverty and hardship. Many people with disabilities rely on benefits for most or all of their income. Social Security makes up over *90% of total income* for nearly half of non-institutionalized Disability Insurance beneficiaries. Over *57% of SSI beneficiaries* have no other source of income.

Average Benefit, As of Dec. 2012

	Monthly	Yearly
Social Security:		
Disabled workers	\$1,130	\$13,560
Disabled widow(er)s	\$711	\$8,532
Disabled adult children	\$720	\$8,640
SSI:	\$520	\$6,240

People with disabilities typically use their benefits to pay for basic necessities such as food, housing, clothing, transportation, and out-of-pocket medical costs. For many, Social Security or SSI provides the income that allows them to secure housing in the community and live independently. Without Social Security or SSI, many beneficiaries would be at risk of severe hardship such as homelessness, institutionalization, hospitalization, or death.

How do Social Security and SSI benefits keep up with inflation?

Social Security and SSI benefits keep up with inflation through annual cost-of-living adjustments (COLAs). By law, the Social Security COLA is calculated using the Bureau of Labor Statistics Consumer Price Index for Urban Wage Earners and Clerical Workers (*CPI-W*).

COLAs protect the buying power of Social Security and SSI benefits, as prices rise. COLAs are particularly important to people who rely on their benefits, for whom every penny counts.

The Chained CPI Cuts Social Security, SSI, & other Vital Programs

One proposal that would cut Social Security, SSI and many other vital programs has received widespread attention over the last year: the chained CPI.

What is the chained CPI?

The chained CPI is an alternative CPI, calculated by the Bureau of Labor Statistics to take into account something called the “substitution effect.” The substitution effect says that as prices rise, consumers may adjust their spending by buying a cheaper product instead of a more expensive one.

However, the current CPI-W already takes into account some kinds of substitution that occur within categories of similar goods. For example, if the price of new luxury cars rises, consumers may buy new midrange or new compact cars instead. The chained CPI tries to account for what is called “upper level substitution” that works across categories. For example, if the price of new luxury cars rises, consumers may buy more used cars instead. As a result of the substitution effect, the chained CPI shows an increase that is on average about 0.3 percent lower than the CPI-W, each year.

Is the chained CPI less accurate for Social Security and SSI?

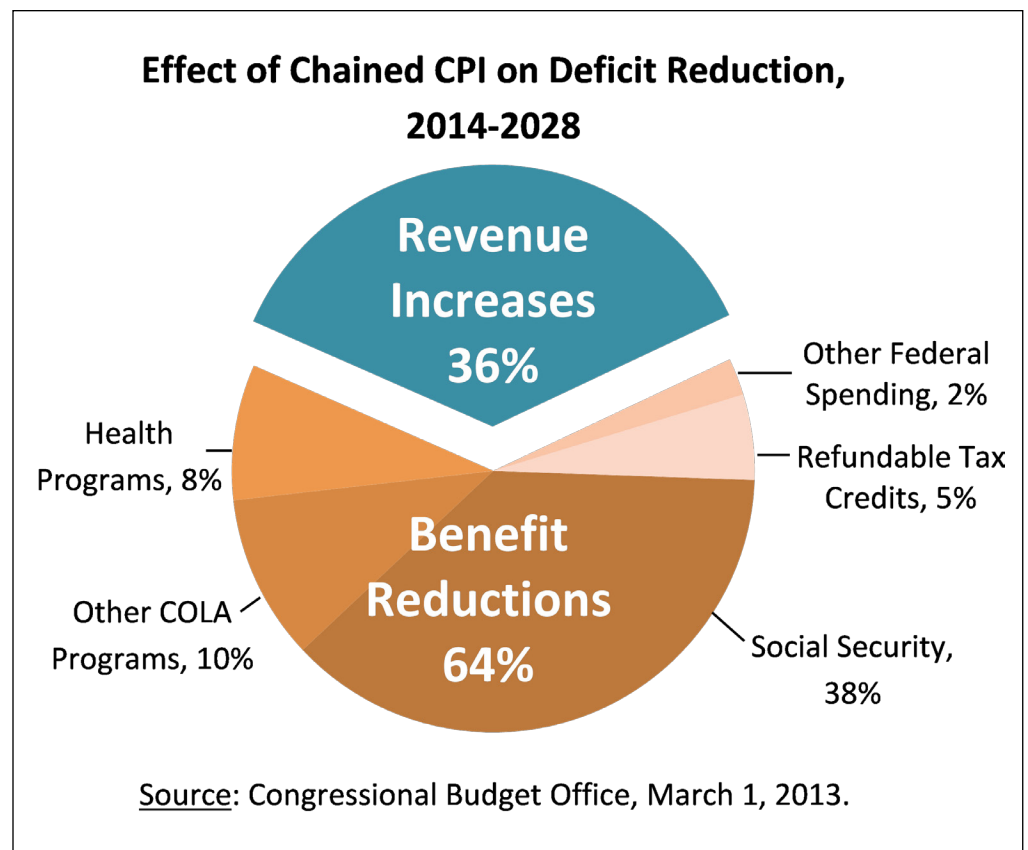
While the chained CPI may have value for upper and middle income urban consumers, many believe it is much less accurate for most Social Security and SSI beneficiaries who often rely

on their very modest benefits and have already economized as much as possible.

Their choice is not between a new car and a used car – many cannot afford to buy a car, at all. For many beneficiaries, the choice is not even between a brand-name drug and a generic drug, but between taking the full dose of a prescribed generic medicine or skipping a dose. Additionally, the chained CPI fails to adequately account for large annual health care cost increases faced by many seniors and people with disabilities.

Why is the chained CPI being considered as part of deficit reduction?

When applied government-wide, the chained CPI both cuts government spending and raises revenues. Largely because of this mix, the



chained CPI has been considered as part of most major deficit reduction proposals over the last several years (such as the proposal put forward by the co-chairs of the National Commission on Fiscal Responsibility and Reform, Erskine Bowles and Alan Simpson, and the proposal put forward by the Bipartisan Policy Center’s Debt Reduction Task Force, also known as the Domenici-Rivlin plan). The chained CPI has at different times been supported by Members of Congress from both political parties and by the White House.

- **Spending cuts:** The chained CPI cuts benefits under Social Security and SSI, certain civilian and military retirement benefits, and veterans’ pensions. It also limits eligibility for certain refundable tax credits and over 30 programs that use the federal poverty guidelines to determine eligibility. These spending cuts are discussed in more detail below.
- **Revenues:** The chained CPI raises revenues by increasing federal income taxes on some households. It does this by slowing the growth in the federal income tax brackets, which adjust annually for inflation. If the tax brackets rise more slowly, more people go into a higher tax bracket and pay taxes at a higher rate.

According to the *Congressional Budget Office* (CBO), over a 10 year period, shifting to the chained CPI would cut about \$216.1 billion from the federal budget – primarily through cuts to Social Security – and would raise about \$123.7 billion in new revenues – roughly, a 3 to 2 ratio of benefit cuts to revenues.

How would the chained CPI cut Social Security benefits?

The chained CPI cuts Social Security benefits by reducing the annual COLA. While in the first year, a COLA reduction of 0.3% is relatively small, the cut from the chained CPI is cumulative, getting bigger every year. For example, after 30 years the cut to the average Disability Insurance benefit is equivalent to losing roughly a full month’s worth of benefits for the year.

<i>Chained CPI: Estimated Sample Cut to 2011 Average Disabled Beneficiary Benefit (\$12,717 per year)</i>	
In year 10, a cut of...	\$331
In year 20, a cut of...	\$687
In year 30, a cut of...	\$1,034
In year 40, a cut of...	\$1,370

How would the chained CPI cut SSI benefits and limit eligibility?

The chained CPI cuts SSI in two ways.

First, the annual COLA reduction cuts SSI benefits in the same way as Social Security – benefit levels grow more slowly each year.

Second, whereas Social Security initial payments are based on a worker’s earnings history, SSI initial payments are based on a federal benefit level that is adjusted annually based on the Social Security COLA. Using the chained CPI, the SSI federal benefit level will grow more slowly over time. As a result, SSI beneficiaries would see two benefit cuts from the chained CPI – one to their initial payments, and a second to the annual increase in benefits.

Additionally, under the chained CPI, fewer people would qualify for SSI because over time the SSI income limits would be lower than under the CPI-W. As with benefit cuts, reductions in the SSI eligibility standard would start out small, but would be cumulative and grow larger as the years go by.

<i>Chained CPI: Estimated Sample Cut to Average SSI Benefit (\$6,310 per year as of Jan. 2013)</i>	
In year 10, a cut of...	\$164
In year 20, a cut of...	\$341
In year 30, a cut of...	\$513
In year 40, a cut of...	\$680

How would the chained CPI cut benefits and limit eligibility in other vital programs?

The chained CPI would cut benefits under vital programs including the Veterans' Pension Benefit Programs, the Railroad Retirement Board Programs, the Civil Service Retirement System, and the Military Retirement System. It would also likely cut benefits paid to veterans with disabilities and their survivors (Veterans' Disability Compensation; Dependency and Indemnity Compensation for Survivors); these benefits receive a COLA enacted each year by Congress that is equal to the Social Security COLA.

Additionally, if applied government-wide, over time the chained CPI would limit eligibility and lower the maximum benefit for the Earned Income Tax Credit (EITC), an important tax credit for working people who have low to moderate income. It would also limit access to *over 30 vital programs* that use the federal poverty guidelines as the basis for their income eligibility thresholds. The federal poverty guidelines adjust annually using an inflation index. If the chained CPI is applied to the federal poverty guidelines, fewer people will be able to qualify for programs that use these guidelines to set their income standards.

Affected programs include:

- Children's Health Insurance Program (CHIP) and parts of Medicaid;
- Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps);
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC);
- National School Lunch Program and National School Breakfast Program;
- Head Start; and
- Low-Income Home Energy Assistance Program.

Finally, if applied government-wide the chained CPI would alter various beneficiary income-related special assistance programs, provider payments, and provider collections under Medicare and Medicaid. Net cuts to health programs would total about \$28.5 billion over 10 years, according to *CBO*.

How would the chained CPI harm beneficiaries, including people with disabilities?

As discussed earlier, Social Security and SSI benefits are already extremely modest and annual COLAs are essential to helping beneficiaries live in the community and meet their basic needs. Cuts under the chained CPI could force many people to make difficult choices, such as whether to buy all the food they need or to instead refill an essential prescription.

For example, the National Women's Law Center *estimates* that under the chained CPI, a single elderly woman receiving Social Security benefits would be able to afford food for 3 fewer days at age 70, for 7 fewer days at age 80, and for 13 fewer days at age 90. People with disabilities would face similar challenges because, as noted earlier, they often rely on benefits for most or all of their income. Additionally, people with disabilities often receive benefits for longer than other beneficiaries – so they would feel the cuts from the chained CPI for longer and more deeply.

Finally, the benefits provided under programs like the EITC, CHIP, Medicaid, Medicare, SNAP, WIC, the school meals programs, and LIHEAP are often essential to helping people with disabilities and their families meet their basic needs. Reductions in eligibility or benefits could mean that some go without necessary food, utilities, or health care.

Do Americans oppose cutting Social Security using the chained CPI?

Yes. In a recent *poll* by Americans for Tax Fairness, 65 percent of respondents oppose cutting Social Security benefits through the chained CPI.

This finding is consistent with other national surveys which have repeatedly shown that Americans overwhelmingly support preserving Social Security and strengthening benefits. Most recently, in a new *survey* by the National Academy of Social Insurance (NASI) respondents shared their strong beliefs:

- 89% believe that "Social Security benefits now are more important than ever...";
- 84% don't "mind paying Social Security taxes

because it provides security and stability to millions...”; and

- 75% believe “we should consider increasing Social Security benefits.”

NASI asked survey respondents to consider 12 possible policy packages to strengthen Social Security. The packages had different combinations of cutting or increasing benefits and reducing or increasing Social Security’s dedicated funding. The most favored package – supported by over 7 in 10 respondents – would actually increase the Social Security COLA so that it better reflects beneficiaries’ daily living expenses.



The Arc’s CEO, Peter V. Berns, speaks at a Capitol Hill press conference on the chained CPI in January, 2013. At left is U.S. Senator Sheldon Whitehouse from Rhode Island.

What is The Arc’s response to the chained CPI?

The Arc knows that Social Security and SSI are lifelines for people with disabilities, women, low-income seniors, veterans, and other vulnerable beneficiaries.

We strongly oppose cuts to these and other vital supports, including under the chained CPI. Benefits are minimal, and many people cannot afford any cuts in their basic income that goes to pay for essential housing, food, and medical costs. The Arc knows that the impact of the chained CPI would be real and painful, and we firmly believe this is not the way to balance the budget.

The Arc is working hard to educate policymakers about the importance of Social Security and SSI to people with disabilities, including people with I/DD. We have joined with other national groups and coalitions to urge policymakers to reject the chained CPI as a harmful benefit cut.

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The Arc logo, featuring a stylized white 'A' shape above the text "The Arc" in a white serif font, all on an orange background.

The Arc