# No Cuts to Social Security and Supplemental Security Income Benefits:

Oppose Changing Social Security Cost of Living Adjustment to Chained CPI

Millions of people with disabilities and their families rely on the Social Security disability, retirement, and survivors system and on Supplemental Security Income (SSI) to meet their basic needs. The CCD Social Security Task Force strongly supports taking steps to achieve the long-term financial solvency of the Social Security system. It is vitally important to strengthen the long-term financing of Social Security so that it can continue to provide the critical income support on which many of the most vulnerable members of our society depend. More importantly, Social Security and SSI benefits are currently very modest and should not be cut in any way.

Changing to the chained CPI from the current CPI-W would result in significant benefit cuts for both current and future beneficiaries. The CCD Social Security Task Force strongly opposes using the chained CPI as the basis for the Social Security Cost-of-Living Adjustment (COLA).

## SOCIAL SECURITY AND SSI PROVIDE MODEST BUT VITAL INCOME

- ✓ **Social Security and SSI Benefits Are Modest:** The average monthly benefit for a disabled worker receiving Disability Insurance benefits in September 2012 was only $1,111, or $13,332 per year. The average monthly benefit for a retired worker receiving Retirement Insurance benefits was only slightly higher at $1,237 ($14,844 per year). The average monthly SSI benefit is far lower, at about $520 per month ($6,240 per year). In all three programs, many beneficiaries receive significantly lower monthly payments.[1]

- ✓ **People Rely on Social Security and SSI Benefits:** Social Security and SSI benefits make up a significant percentage of total family income for many workers and their families. This is especially true for low income beneficiaries. For example, the average yearly benefit for the lowest 20% of income earners receiving retirement benefits in 2010 was $10,206 and that represented 94% of their family income.[2] Any cut to benefits will likely mean that a basic need (like food, medicine, or shelter) will not get met for the people who depend almost entirely on Social Security or SSI benefits. Someone with a total income of just over $10,000 a year simply does not have luxury items to cut out of his or her budget.

## THE CHAINED CPI WOULD BE A SIGNIFICANT BENEFIT CUT

The chained CPI annually shows an increase in the cost of living that is about .3% less than the CPI-W on average. Basing the Social Security COLA on the chained CPI would therefore mean that benefit increases each year would be approximately 0.3% less – seriously eroding the purchasing power of seniors and people with disabilities over time.

- ✓ **Annual Benefit Cuts Increase Over Time**: Cuts under the chained CPI add up significantly over time. For a beneficiary who begins receiving the average Disability Insurance benefit in 2012, benefits would be cut by about $347 per year (2.6%) after 10 years, $720 (5.4%) after 20 years, and $1,084 per year (8.13%) after 30 years. With so many beneficiaries relying on their Social Security Disability Insurance benefits, these cuts represent a potentially significant erosion of purchasing power.

- ✓ **Effect on People with Disabilities More Significant**: Because the effect of a lower COLA under the chained CPI is cumulative, the more years a person receives benefits, the greater the cut. People with disabilities who begin receiving benefits at an early age would experience some of the deepest percentage cuts from shifting to the chained CPI.

- ✓ **Effect on SSI Beneficiaries More Significant**: Under the chained CPI, SSI beneficiaries would face a significant, two-part cut in their already-low benefits. Unlike Social Security, where initial benefits are based on a worker's wage history, the SSI initial payment levels are based on a federal benefit rate that is adjusted using the CPI-W. Using the chained CPI, the SSI initial payment levels would grow at a lower rate, meaning that a person's benefits would be cut even prior to application – and then would be cut a second time through lower cost-of-living adjustments.

## THE CHAINED CPI IS LESS ACCURRATE FOR MOST BENEFICIARIES

Compared to the CPI-W, the chained CPI shows less increase in prices based on the idea of a substitution effect, which argues that when prices go up on a particular item a person will substitute a similar but less expensive item. For example, if the price of steak rises a person will buy hamburger instead. Although this may hold true for upper income consumers, it does not apply for most Social Security and SSI beneficiaries.

- ✓ **Many Purchases are Not Discretionary**: A very large percentage of the items most low and moderate income seniors and people with disabilities buy are not substitutable. For example, seniors and people with disabilities spend significantly more on health care than other Americans, and health care costs typically rise faster than for other goods and services. If a beneficiary is already buying a generic drug, it is unclear what could substitute for that generic drug. It is more likely the person would be forced to go without the prescription and incur more health problems as a result.

- ✓ **Substitution Effect Is More Accurate for Luxuries than Necessities**: When the products and services purchased are expensive or optional, there is more room for substitution. When a person spends most income on meeting basic needs, substitution is often not an option. For example, a person who has already given up meat to be able to afford prescription medicines is unable to substitute hamburger for steak.

*Fact sheet prepared by the CCD Social Security Task Force, December, 2012. For more information contact Lisa Ekman at 240-463-5612 or lekman@hdadvocates.org.*

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[1] Social Security Administration, Monthly Statistical Snapshot, http://www.socialsecurity.gov/policy/docs/quickfacts/stat_snapshot/
[2] Social Security Administration, *Income of the Population 55 or Older, 2010*, Table 3.A6 and Table 9.A4