COMMITTEE ON
WAYS AND MEANS
CHAIRMAN DAVE CAMP

The President's and Other Bipartisan Proposals to Reform Social Security: Using A More Accurate Measure of Inflation

Since 2010, Social Security has been paying more in benefits than it receives in revenue. Social Security faces permanent cash flow deficits, reaching $1.3 trillion over just the next 10 years.

- When today's 47-year-old workers reach their full retirement age in 2033, they and everyone else already receiving benefits face a 23 percent benefit cut unless Congress acts according to the Social Security Trustees.

To protect benefits and preserve Social Security for future generations, President Obama and other bipartisan proposals, the National Commission on Fiscal Responsibility ("Simpson-Bowles Commission") and the Bipartisan Policy Center Debt Reduction Task Force ("Domenici-Rivlin Task Force"), have proposed using a more accurate measure of inflation to determine Social Security cost of living adjustments (COLA).

- Using a more accurate measure of inflation would reduce Social Security's 75-year shortfall by 19 percent.

Social Security uses the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) to calculate the COLA but this measure is inaccurate and overstates inflation according to experts.

- "According to many analysts, however, the CPI overstates increases in the cost of living because it does not fully account for the fact that consumers generally adjust their spending patterns as some prices change relative to other prices..." *(Congressional Budget Office testimony, April 18, 2013)*

A more accurate measure is the chained Consumer Price Index for All Urban Consumers (chained CPI), which accounts for the fact that as prices change, consumers adjust their spending habits (e.g., if the price of beef goes up, consumers might buy pork instead).

- "Most economists agree that the chained CPI provides a more accurate measure of the average change in the cost of living than the standard CPI." *(President Obama's Fiscal Year 2014 Budget)*

Benefits will continue to grow only more slowly than under the current less accurate measure should the chained CPI measure be used to determine COLAs.

- According to the Chief Actuary at the Social Security Administration, the average difference in the COLA using the chained CPI would amount to less than half a percentage point, 0.3 percentage points a year**.** For example, if the COLA under the currently used CPI called for a 1.0% increase, a 0.3 percentage point decrease would result in a COLA of 0.7%.

Since the impact of the chained CPI would grow over time, the President's and other bipartisan plans also include benefit increases to protect long-time beneficiaries.

- President Obama proposes a benefit increase equal to 5 percent of the average retired worker benefit, phased in over 10 years, beginning at age 76 (or in the 15th year of receiving benefits). Ten years after the increase is fully phased in, the beneficiary is eligible for a second increase beginning at age 95.
- The Simpson-Bowles Commission proposes a benefit increase, phased in over 5 years, equal to 5 percent of the benefit for a worker with average earnings after they have received benefits for 20 years.
- The Domenici-Rivlin Task Force proposes an increase equal to 5 percent of the average retired worker benefit phased in over 5 years, beginning at age 81.