

WAYS AND MEANS COMMITTEE DEMOCRATS

Fact Sheet: Impact of Shifting to a Chained CPI

A number of federal programs -- including Social Security and veterans programs -- index benefits to reflect increases in the cost of living. Also, a number of provisions of the tax code such as the income tax brackets, the standard deduction and personal exemption, and the earned income tax credit and the refundable child credit, are automatically adjusted for inflation. Changing the measure of inflation used by these programs to Chained CPI -- which rises more slowly than the current measure -- will reduce annual benefits in these programs over time and result in higher taxes, mainly for middle- and lower-income Americans.

Overall Benefit Reductions*

- Social Security: **\$112 billion**
- Civilian and military pensions and veterans' benefits: **\$24 billion**
- Supplemental Security Income and other programs: **\$9 billion**

Overall Tax Increases**

- Increase in Taxes: **\$59.6 billion**

SOCIAL SECURITY BENEFITS***

Projected annual **cuts** in benefits for a typical retiree:

- By age 75: **\$560 a year**
- By age 85: **\$984 a year**
- By age 95: **\$1,400 a year**

INDIVIDUAL TAX LIABILITY**

- In 2021 alone, individuals' taxes would increase by \$12.5 billion. More than two-thirds (69 percent) of that additional revenue would come from increased taxes on taxpayers with income below \$100,000.
 - Incomes less than \$100,000: **\$8.6 billion tax increase**
 - Incomes \$100,000 and over: **\$3.9 billion**
- The average change in tax liability for all taxpayers would be 0.3%. In general, lower income taxpayers would experience the largest tax increases. In 2021 alone:
 - Incomes between \$10,000 and \$20,000: **14.5% tax increase**
 - Incomes between \$20,000 and \$30,000: **3.5%**
 - Incomes of \$1 million and above: **0.1%**

MEDICARE BENEFITS

- **Provider:** A move to chained CPI will lower Medicare provider payment rates for several types of health care providers, including clinical labs, ambulatory surgical centers, and durable medical equipment.
- **Beneficiaries:** The move to chained CPI would also increase the number of beneficiaries subject to income related premiums for Parts B and D, starting in 2020. The income thresholds for these higher premiums are frozen through 2019. Indexing restarts in 2020 based on the standard CPI, but a move to chained CPI would cause the thresholds to rise more slowly, resulting in more beneficiaries above the thresholds and thus subject to the higher premiums.

* Congressional Budget Office. *Reducing the Deficit: Spending and Revenue Options*, March 2011 (updated with new revenue estimates June 10, 2011).

** Joint Committee on Taxation Distributional Analysis provide to Ways and Means Democrats (June 29, 2011); revenue is in FY 2013-2021

*** Social Security Actuarial Analysis (June 21, 2011) First 10 years -- amounts grow outside budget window. Benefit cut shown is for a worker who earned an average of \$43,000 a year while working.