

## NARFE OPPOSITION TO THE CHAINED CPI

*Cost-of-living adjustments (COLAs) to federal civilian and military retirement annuities, as well as Social Security benefits, veterans' benefits and disability benefits, are determined by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which is computed by the Bureau of Labor Statistics (BLS) at the Department of Labor.*

President Obama's Budget for Fiscal Year 2014 included a proposal to use the Chained Consumer Price Index for All Urban Consumers (Chained CPI-U) instead of the current CPI-W as a way to "reduce deficits and improve Social Security solvency." It was not included in the President's subsequent budgets. Historically, the proposal has garnered support among many congressional Republicans, and was part of the Simpson-Bowles Fiscal Commission report. This change is likely to receive serious consideration in budget negotiations and talks on Social Security reform in the 115<sup>th</sup> Congress.

### **The Chained CPI Is Not a Better Measure of Inflation**

Proponents of the Chained CPI claim it provides a better measure of inflation by taking into account how consumers substitute one item when the price of another item increases; for example, by switching from steak to chicken when the price of steak rises. While this type of substitution may hold true for those still in the workforce, seniors often find this substitution impracticable, as they are already purchasing lower-priced goods as a result of living on a fixed income.

More importantly, neither the Chained CPI nor the current CPI-W accurately reflects changes in consumer prices experienced by the seniors who rely on the measures to adjust their incomes appropriately. Notably, while health care accounts for about 12 percent of spending for those age 62 and older, it accounts for only 5 percent of spending for the general population, and it is that 5 percent that is measured by the Chained CPI. Meanwhile, health care costs are rising faster than other goods. In 2016, health care inflation was 4.1 percent, while the CPI-W indicated the average price of consumer goods increased 0.3 percent.

When you measure costs experienced by Americans age 62 and older, as the BLS does when calculating an experimental price index for elderly consumers, the CPI-E, inflation is actually greater than what the CPI-W reflects, a clear sign that switching to the Chained CPI is a move in the wrong direction.

### **The Chained CPI Cuts Earned, Promised Benefits**

Using the Chained CPI instead of the CPI-W would reduce COLAs by an estimated 0.3 percent per year. Because this difference would compound over time, it would result in estimated yearly benefits 3 percent lower after 10 years, 6.2 percent lower after 20 years and 9.4 percent lower after 30 years.

Federal retirees under the Civil Service Retirement System (CSRS), which does not provide Social Security benefits, often rely *solely* on their federal annuity as their source of income. Therefore, a switch to the Chained CPI would have a particularly acute impact on their retirement benefits. The median CSRS annuity is \$35,600 annually. By using the Chained CPI, someone earning that annuity would lose, in total actual dollars, an estimated:

- \$6,969 after 10 years;
- \$32,306 after 20 years;

- \$87,203 after 30 years; and, if lucky enough to enjoy a long life,
- \$188,190 after 40 years.

Federal employees covered by the Federal Employees Retirement System (FERS) would be hit twice by the switch, through their federal annuities and their Social Security benefits. Additionally, FERS retirees do not receive a full inflation adjustment if inflation is greater than 2 percent. With a median annuity of only \$12,000 per year, FERS retirees would lose an estimated:

- \$2,349 after 10 years;
- \$10,890 after 20 years;
- \$29,395 after 30 years; and, if lucky enough to enjoy a long life,
- \$63,435 after 40 years.

This only reflects the loss to a retiree's federal annuity and does not reflect losses to Social Security benefits.

### **The Chained CPI Hurts the Most Vulnerable**

Using the Chained CPI as an inflation measure would decrease benefits for low-income seniors and the disabled, including disabled veterans, while simultaneously increasing taxes on lower- and middle-income taxpayers. Current seniors would be hit the hardest by a switch to the Chained CPI – they are likely to have fewer sources of income, are unable to return to work given their age, and have higher medical expenses.

The average Social Security benefit is \$16,000 annually, which is, by itself, a low income. For seniors who rely solely on their Social Security benefits, every dollar of their income reduced by the Chained CPI may be a vital one. While some proponents of the Chained CPI have coupled their support for it with an increase in benefits for the poorest elderly, such as those receiving Supplemental Security Income (SSI), it is difficult to see where you draw the line, when the average Social Security benefit is already so low.

Individuals receiving veterans' benefits or disability benefits (SSI) would be hit particularly hard by a switch to the Chained CPI. Because many of these individuals rely on benefits for a longer period of time, the compounding effect from reduced COLAs caused by a switch to the Chained CPI would take a more substantial toll on their total benefits.

Finally, using the Chained CPI to adjust tax brackets would increase taxes on lower- and middle-income workers, making it harder to save more for retirement. According to a Joint Committee on Taxation report, after 10 years, the tax liability for those with incomes between \$10,000 and \$20,000 would increase by 14.5 percent, and by 3.5 percent for incomes between \$20,000 and \$30,000, while those with incomes of \$1 million and above would see an increase of only 0.1 percent. Clearly, the Chained CPI hits our nation's most vulnerable twice.

The impact of these combined changes would fall hardest on those who live the longest, as their savings dwindle, and on those whose sole source of retirement income is from their government benefit, including Social Security and civilian and military retirement annuities.