



November 8, 2012

Dear Senator:

On behalf of millions of members nationwide and all Americans age 50 and older, AARP writes to reiterate our opposition to adopting a chained consumer price index to calculate the Social Security cost of living adjustment for the purpose of reducing the deficit. Reducing Social Security benefits by moving to a chained consumer price index (CCPI) – estimated to take \$112 billion dollars out of the pockets of current and future Social Security beneficiaries in the next 10 years alone – is inappropriate and unwarranted.

Social Security is currently the principal source of income for nearly two-thirds of older American households receiving benefits, and roughly one third of those households depend on Social Security for nearly all of their income. Half of those 65 and older have annual incomes below \$18,500, and many older Americans have experienced recent and significant losses in retirement savings, pensions, and home values. Today, every dollar of the average Social Security retirement benefit of about \$14,800 is absolutely critical to the typical beneficiary.

As you know, on October 16, 2012, the Social Security Administration announced that beneficiaries would receive only a 1.7% increase in 2013, the sixth-lowest increase since automatic cost of living adjustments (COLAs) began over 35 years ago. If Congress had already adopted CCPI, the 2013 COLA would be even less, at only 1.4%. However, adopting a chained consumer price index to calculate Social Security COLAs is not a small benefit change – it will compound benefit reductions dramatically over time, resulting in an annual benefit that is roughly \$1,000 (2012 dollars) lower by the time a beneficiary reaches age 85. As a result, according to AARP Public Policy Institute's new report *Proposed Changes to Social Security's Cost-of-Living Adjustment: What Would They Mean for Beneficiaries?*, "the CCPI will produce the largest benefit cuts during the time when older Americans need more resources to pay for increasing out-of-pocket medical costs, are most dependent on Social Security benefits, and are at the greatest risk of poverty."

In fact, the current COLA already understates the cost of living for the elderly as evidenced by the experimental index for the elderly (CPI-E) developed by the Bureau of Labor Statistics (BLS). The current index (CPI-W) measures the cost of a market basket of items the average American worker purchases each month – an index that does not include the purchasing patterns of a single retiree. As a result, the COLA is currently based on an index that under-reports the rapidly increasing health care costs disproportionately experienced by seniors, and as such results in a lower than warranted COLA. If accuracy is the goal, as some have argued to justify the adoption of CCPI, then the first step should be to properly calculate the market basket of goods that are purchased by retirees, and to

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cease use of an index that under-estimates the actual rate of inflation experienced by older Americans.

A further concern is that the CCPI is premised on substitution behavior by consumers that may not significantly occur among older Americans. Older Americans typically live on less income than they did when employed, and most have already “traded down” or substituted where possible to save money. In fact, the current index for calculating COLAs already accounts for this limited substitution. Beginning in January 1999, the BLS began using a different formula for calculating the consumer price index – a geometric mean formula – that allows for substitution within most of the 211 item categories.” AARP is concerned further substitutions may not be possible without significantly diminishing the ability of a retiree to maintain a decent standard of living – defeating the purpose of ensuring that the value of Social Security benefits are not eroded by inflation.

Moreover, while a CCPI change will primarily impact Social Security benefits, it will also impact other calculations, such as the tax code, which is indexed to the CPI. And the impact will again be felt by those of modest incomes. According to an analysis by the Joint Committee on Taxation, by 2021, taxpayers making between \$10,000 and \$20,000 would see a 14.5 percent increase in their federal taxes under a chained CPI.

Social Security is not the cause of our current large budget deficits. In fact, as you know, Social Security is a self-financed, off-budget program and any reduction in Social Security does nothing to address the shortfall in the rest of the federal budget. Americans of all ages strongly support the modest but much-needed benefits earned by a lifetime of hard work and oppose benefit cuts. According to a joint survey by Hart Research Associates and GS Strategy Group in July 2012, only 8 percent of voting adults 18 and older support cutting Social Security to reduce the federal deficit. 86 percent believe Social Security should be addressed separately as part of a plan for retirement security purposes. These survey results align with the information AARP has been gathering from the public through our You've Earned a Say initiative over the past year.

Consistent with the view of most Americans, we again strongly urge you not to cut Social Security benefits as part of a package to reduce the deficit. If you have any further questions, please feel free to contact me or have your staff contact Joyce Rogers of our Government Affairs office at 202-434-3750.

Sincerely,

A handwritten signature in black ink that reads "A. Barry Rand". The signature is written in a cursive, flowing style.

A. Barry Rand