STATEMENT OF GERALD A. McINTYRE
NATIONAL SENIOR CITIZENS LAW CENTER

HEARING ON
THE PRESIDENT'S AND OTHER BIPARTISAN ENTITLEMENT REFORM PROPOSALS

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS, SUBCOMMITTEE ON SOCIAL SECURITY

April 18, 2013

The National Senior Citizens Law Center has for over forty years worked to protect the rights of low income older adults with a special focus on issues of health and economic security.

The annual cost of living adjustment (COLA) for Social Security and other federal benefits is an essential element of economic security for older Americans. Without it many more would be reduced to living in poverty as they age. For that reason, we oppose the current proposal to provide only a partial cost of living adjustment by use of the Chained Consumer Price Index (CPI).

Rather than repeat many of the arguments the Committee has already heard against the use of the Chained CPI, we want to indicate our full support for all the positions set forth by Nancy J. Altman in her statement before the Committee on April 18, 2013.

However, there are a couple of additional points we would like to make. The first is that our opposition to use of the Chained CPI extends to all federal old age, retirement and disability programs. This includes veterans benefits, federal employees retirement programs and Supplemental Security Income (SSI).

Finally, we want to emphasize that the Chained CPI would have a far worse impact if it were extended to the SSI program. The reason for this is that the cost of living adjustment is applied to the SSI program in a way that is totally different from all other government programs. In the case of Social Security, veterans benefits or federal employee retirement benefits the COLA is first applied to the individual's initial monthly benefit.

In the case of SSI, the COLA is applied, not to the individual's monthly benefit, but to the Federal Benefit Rate (FBR), which is the maximum amount of federal dollars that can be paid and which serves as the basis of the formula for determining eligibility and amount of benefits. This is a very important difference. It means that if an inadequate measure is used to determine the COLA, an individual will feel the cumulative impact in the initial benefit, not just years later as with Social Security.

EXAMPLE - It is useful to compare how a switch to the Chained CPI in 2013 would affect two individuals, Abigail and Bernice, both age 45 in 2013. Assume that both begin receiving benefits at age 65 in 2033, with Abigail receiving Social Security benefits and Bernice receiving SSI. Since Abigail receives Social Security Retirement, the Chained CPI will have no impact on her initial benefit. However, twenty years later in 2053, when she is 85 years old, she will definitely feel the cumulative impact of twenty years of a seriously deficient COLA. On the other hand, when Bernice receives her first SSI check in 2033, that initial benefit will already have been reduced by the same percentage that Abigail will experience at age 85. When Bernice reaches age 85, the percentage reduction in her SSI check will be as great as what Abigail would experience with her Social Security benefit at age 105.

While we disagree with the Administration on the use of the Chained CPI generally, we want to commend them for opposing the use of the Chained CPI in the SSI program in recognition of this important distinction in how it would apply to SSI.

CONCLUSION

It would be a serious mistake to use the Chained CPI to calculate the COLA for any federal retirement or disability benefit. To use the Chained CPI for calculating the SSI COLA would be especially disastrous both because the percentage reduction in benefit levels would be much greater and because this is the most vulnerable group of older Americans.