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November 9, 2011

The Honorable Patty Murray
Chairwoman
Joint Select Committee for Deficit Reduction
448 Russell Senate Office Building
Washington, DC 20510

The Honorable Jeb Hensarling
Chairman
Joint Select Committee for Deficit Reduction
129 Cannon House Office Building
Washington, DC 20515

Dear Senator Murray and Representative Hensarling:

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.

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 benefit of about $14,000 is absolutely critical to the typical beneficiary. Reducing Social Security benefits by moving to a chained consumer price index (CCPI) to reduce the deficit – which is estimated to take $112 billion dollars out of the pockets of Social Security beneficiaries in the next 10 years alone – is inappropriate and unwarranted.

Adopting a chained consumer price index to calculate Social Security cost of living adjustments (COLA) is not a small benefit change – it will compound benefit reductions dramatically over time, resulting in an annual benefit that is nearly $1,000 (2011 dollars) lower by the time a beneficiary reaches age 85. As a result, the older and poorer a beneficiary becomes, the larger the benefit cut. In addition, as evidenced by the experimental index for the elderly (CPI-E) developed by the Bureau of Labor Statistics, the current COLA understates the cost of living for the elderly. The current index that is used to calculate the Social Security COLA 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 already under-reports the rapidly increasing costs disproportionately experienced by seniors, and as such results in a lower than warranted COLA. Seniors spend more on health care than workers. If accuracy in estimating inflation is the goal, as some have argued to justify the adoption of CCPI, then the first step that must be taken to properly calculate the market basket of goods that are purchased by retirees to cease use of an index that under-estimates the actual rate of inflation experienced by older Americans.

A further concern regarding the use of a chained consumer price index to calculate the cost of living adjustment in Social Security is that the CCPI is premised on substitution behavior by consumers that may not 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. Further substitutions may not be possible without significantly diminishing the ability of a retiree to maintain a decent standard of living – defeating the entire purpose of ensuring that the value of Social Security benefits are not eroded by inflation.

While a CCPI change will primarily impact Social Security benefits, it will also impact the tax code, which is also 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.

We know you face a difficult task and an ever shorter time period to complete it. Nonetheless, as several of your most recent hearing witnesses noted, Social Security is not the cause of current large budget deficits. In fact, as you know, Social Security is a self-financed, off-budget program. Any reduction in Social Security does nothing to address the shortfall in the rest of the federal budget. As a result, 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. Barry Rand

A. Barry Rand

cc: The Honorable Max Baucus
The Honorable Xavier Becerra
The Honorable Dave Camp
The Honorable James Clyburn
The Honorable John Kerry
The Honorable Jon Kyl
The Honorable Rob Portman
The Honorable Pat Toomey
The Honorable Fred Upton
The Honorable Chris Van Hollen