

Congress of the United States
Washington, DC 20515

November 14, 2011

The Honorable Sam Johnson
Chairman
Subcommittee on Social Security
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Xavier Becerra
Ranking Member
Subcommittee on Social Security
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Johnson and Ranking Member Becerra:

I write to request a hearing of the Social Security Subcommittee regarding the social impact of utilizing the chained consumer price index (C-CPI). A government-wide switch to this index has been scored by the Congressional Budget Office (CBO) as reducing the unified budget deficit by \$300 billion over the next decade. Hailed as more accurate by some economists, this index may be attractive to the Joint Select Committee on Deficit Reduction.

Yet while the C-CPI has been suggested by various deficit reduction committees as a way to reduce federal outlays, it has undergone little scrutiny by Congress. Using the C-CPI to determine annual cost of living adjustments (COLA) would reduce Social Security outlays by \$112 billion. According to Social Security's Chief Actuary, 97% of these cuts will come from current or near retirees. While this broad-based reduction in monthly benefits has been described as "painless" by the national media, Congress has yet to examine its real impact on America's retirees. In the rush to meet deficit reduction targets, I fear Congress may be asked to vote on a permanent Social Security benefit cut without doing the due diligence our constituents deserve.

My first concern is the C-CPI's impact on seniors' quality of life. As 22% of married couples and 43% of unmarried (widowed, divorced, or never married) persons rely on Social Security for over 90% of their income, even slight benefit reductions significantly denigrate quality of life. While a touted feature of the C-CPI is its accounting for higher level substitution, it fails to measure how this substitution impacts quality of life. If rising heating oil costs force elderly Americans to lower their thermostats and buy more blankets to keep warm, the C-CPI will lower the COLA to reflect that substitution. Seniors would be punished for resourcefulness. The ability to weather price inflation while awaiting a COLA should not result in a permanently altered market basket.

What would a broad-based reduction in seniors' quality of life mean for our communities and our economy? How would the C-CPI serve low-income seniors, who already buy the lowest cost goods available and lack the flexibility to substitute? Recent analysis from the Congressional Budget Office indicates that cutting benefits for our lowest income seniors would actually lead to increased government spending on SNAP and other nutrition assistance programs. Social Security has successfully reduced elder poverty from 50% to 10%, yet Congress has not explored the C-CPI's impact on anti-poverty efforts, the foreclosure crisis, elder suicide, and other challenges. These questions deserve thorough examination.

My second concern lies with the supposed accuracy of the chained-CPI. If the current formula truly overstates real price inflation, checks for the eldest would have considerably more buying power than at retirement since alterations to annual adjustments have a cumulative effect. With rising medical costs, nonagenarians do not agree that cost of living adjustments have been too generous. To the contrary, increased utilization of higher inflation categories, such as medical supplies and care, has reduced the purchasing power of their benefits. This phenomenon leads many economists to conclude that the CPI-W undercounts the real costs seniors face. Instead of addressing the inadequacy that already exists, the C-CPI sharply pivots to a nearly 10% benefit cut for seniors in their nineties.

In addition to questions of accuracy, serious obstacles to implementation remain. While most inflation indices, including the currently used CPI-W, are published monthly, the C-CPI requires two years to finalize. These delays would mean either using an arbitrary, inaccurate, interim estimate or, worse, delaying COLAs for years after a period of inflation. Either way, the Social Security Administration cannot rely on the C-CPI for a timely, accurate, and functional measure of price inflation.

It seems advocates for the C-CPI seek a cheaper COLA – not a more accurate one. If accuracy were truly a concern, they would direct the Bureau of Labor Statistics to publish a price index that accurately tracks elderly consumers' expenses. There is no way to disguise the reality that the C-CPI is a benefit cut that compounds throughout retirement.

While Congress has cut Social Security benefits before, this would be the first substantial benefit cut taken up without full consideration. As you know, the 1983 Amendments included several cuts including a six month delay of the COLA, taxes on Social Security benefits, and an increase in the full retirement age – a benefit cut currently being phased in. Following the completion of the Greenspan Commission, both the House Ways and Means Committee and the Senate Finance Committee held full and open hearings. Indeed, the retirement age increase was the result of an amendment and recorded vote on the Floor of the House of Representatives. Lawmakers

scrutinized the impact of the recommendations and determined in an open, transparent, and accountable process that the package would be the best way forward.

Before we vote on a substantial benefit cut for 55 million Social Security beneficiaries – most of whom are seniors on fixed incomes – hearings should be held. We know how the chained-CPI would impact the budget, but now we must study its impact on our constituents. No cut is painless. Seniors' lifetimes of hard work made America the greatest economy ever known. Before we change the retirement system they paid into their whole lives, we owe them the respect of full and fair consideration of the impact those changes would have on them.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ted Deutch". The signature is fluid and cursive, with a large initial "T" and "D".

Ted Deutch
MEMBER OF CONGRESS