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TREA Signs Letter to Congress Opposing Changing the COLA Formula

November 15, 2012

Dear Senator:

On behalf of the millions of Americans receiving Social Security, Supplemental Security Income, military retirement, veterans, and federal civilian benefits, we are writing to urge you to protect the current method of calculating the annual cost-of-living adjustment (COLA). Proposals to substitute a "chained CPI" calculation for the current index are inaccurately characterized as a "technical adjustment" and will substantially reduce the current and future benefits of the constituencies we represent.

All beneficiaries will feel the impact of this change, but the impact will be greatest on those who draw them at earlier ages (e.g. military and disabled) and who live the longest. The Chief Actuary of the Social Security Administration estimates that use of the chained CPI would result in a yearly 0.3 percentage point reduction compared to the current COLA increase. This reduced COLA would result in a decrease of about \$130 per year (0.9 percent) in Social Security benefits for a typical 65 year-old. By the time that senior reaches 95, the annual benefit cut will be almost \$1,400, a 9.2 percent reduction from currently scheduled benefits. The cumulative effect of these reductions means that the disproportionate impact will be felt by Social Security's oldest beneficiaries. These are often women who have outlived their other sources of income, depleted their assets, and rely on Social Security as their only lifeline to financial stability.

Likewise, millions of federal civilian retirees and survivors would face a similar loss. Many of these people receive no other source of retirement income because they are not eligible to receive Social Security. Retired military and disabled veterans have already sacrificed to protect America. They retire at relatively younger ages, expect to receive inflation-protected annuities, and if this change is implemented, will be forced to adjust to the same compounding effects over their lifetimes.

For Supplemental Security Income (SSI) beneficiaries, the switch to a chained CPI will be devastating, because, in the case of future recipients, the benefit will have been reduced even before the person has applied. The chained CPI would not affect a person's initial benefit for Social Security and other federal retirement programs because prior to reaching age 62, the benefit is based on the recipient's wages, and therefore not affected by COLA changes. In contrast, the COLA for the need-based SSI federal benefit would be reduced by 0.3 percentage points every year. For example, if the chained CPI is implemented for the SSI program in 2015, an applicant in 2030, 15 years later, would receive an initial benefit more than four percent lower than it would be without the chained CPI.

In addition, implementation of the chained CPI means increased taxes, so our beneficiaries are hurt two ways. Moving to this chained CPI for purposes of indexing the income tax would reduce the yearly adjustments for personal exemptions, the standard deduction, and income thresholds dividing the tax brackets, thereby increasing the amount of taxes owed. There is no way to get around the fact that this is a tax increase.

A Joint Committee on Taxation report prepared for Congress states that these tax increases would fall mainly on lower and middle-income taxpayers. For example, the tax liability for those with incomes between \$10,000 and \$20,000 would increase by 14.5 percent, and 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.

We are also concerned about the technical problems associated with implementation of the chained

CPI. While the current CPI is updated annually, each update of the chained CPI requires two years to become final after it is first published. Obviously, there are technical implications with using an initial number that could be revised two years later, or waiting two years for a final number before applying a COLA. Additionally, the Bureau of Labor Statistics initial estimates of the chained CPI have underestimated the final chained CPI in most years, meaning that beneficiaries will likely endure regular underpayments. In neither case would the change in the COLA calculation reflect changes in the cost of living more accurately. In fact, it would become less accurate for the reasons cited above. If the true reason for a change in the COLA calculation is to reflect changes in the cost of living more accurately, and not simply to reduce the nation's debt, there are other options that provide more reasonable alternatives, such as the CPI-E.

We believe you should know that according to a recent poll conducted for the National Committee to Preserve Social Security and Medicare, 72 percent of all Americans oppose reducing COLA increases. We all agree the nation's debt problem must be addressed, but as this poll demonstrates, Americans do not believe it should be addressed by increasing the burdens on our oldest and most vulnerable citizens. We urge you to protect their hard-earned benefits by opposing the chained CPI and supporting a more accurate inflation measurement for the elderly which factors in the disproportionate amount seniors spend on health care. This is crucially important not only for seniors, but for their children and grandchildren as well.

Sincerely,

<p>Air Force Association (AFA) The Air Force Sergeants Association Air Force Women Officers Associated Alliance for Retired Americans American Federation of Government Employees (AFGE) American Federation of State, County, and Municipal Employees (AFSCME) American Foreign Service Association (AFSA) American Postal Workers Union (APWU) AMVETS The Arc of the United States The Association of the United States Army The Association of the United States Navy Blinded Veterans Association Commissioned Officers Association of the U.S. Public Health Service Easter Seals Epilepsy Foundation FAA Managers Association Federally Employed Women (FEW) Federal Managers Association (FMA) Gold Star Wives of America Gray Panthers Iraq and Afghanistan Veterans of America (IAVA) Jewish War Veterans (JWV) Leading Age Military Officers Association of America Military Order of the Purple Heart of the United States National Active and Retired Federal Employees Association National Association of Councils on Developmental Disabilities National Association of Letter Carriers (NALC)</p>	<p>National Association for Uniformed Services The National Caucus and Center on Black Aged, Inc. (NCBA) National Committee to Preserve Social Security and Medicare The National Guard Association of the United States National Hispanic Council on Aging National Military Family Association National Multiple Sclerosis Society National Organization of Social Security Claimants' Representatives National Postal Mail Handlers Union (NPMHU) National Senior Citizens Law Center National Treasury Employees Union (NTEU) National Weather Service Employees Organization (NWSEO) Naval Enlisted Reserve Association Organization of Professional Employees of the U.S. Department of Agriculture (OPEDA) OWL, The Voice of Midlife and Older Women Paralyzed Veterans of America Patent Office Professional Association (POPA) Professional Aviation Safety Specialist (PASS) Professional Managers Association (PMA) The Retired Enlisted Association Senior Executives Association (SEA) Service Employees International Union (SEIU) Social Security Works U.S. Army Warrant Officers Association Veterans for Common Sense Veterans of Foreign Wars</p>
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