Cutting the Social Security COLA by Changing the Way Inflation Is Calculated Would Especially Hurt Women

by
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Various deficit-reduction plans have proposed changing the way increases in the cost of living are calculated under federal law. Specifically, they would replace the current Consumer Price Index (CPI) with a new “chained CPI” that would produce lower annual estimates of increases in the cost of living. Shifting to the chained CPI would reduce federal spending by reducing the annual Cost-of-Living Adjustment (COLA) in various federal benefit programs, including Social Security. It also would increase revenues (although by a smaller amount than it would cut spending), by reducing the inflation adjustment in tax brackets and some other tax provisions.

Policy makers engaged in deficit reduction talks are reportedly considering the proposal, which was recently endorsed in a Washington Post editorial that claimed, “This Cut Won’t Hurt.” However, the facts show otherwise.

Social Security benefits are adjusted annually to account for inflation—when the cost of living increases, benefits automatically increase so that their purchasing power does not erode over time. Shifting to the chained CPI would mean a cut in Social Security benefits for current and future beneficiaries, compared to the benefits they would receive under the current COLA. The cut would grow deeper the longer an individual received benefits, making this cut especially painful for women who have longer life expectancies, rely more on income from Social Security, and are already more economically vulnerable than men.

Shifting to the chained CPI has been justified on the grounds that this is a technical change to a more accurate way of measuring changes in the cost of living. However, the chained CPI is not a more accurate way of measuring changes in the cost of living for Social Security beneficiaries whose current cost-of-living adjustments, if anything, are too low.

Shifting to the chained CPI would lower Social Security benefits for all current and future beneficiaries and produce deeper cuts the longer an individual receives benefits.

The cost-of-living adjustment (COLA) for Social Security is measured by the Consumer Price Index for Urban Wage and Clerical Workers (CPI-W), calculated by the Bureau of Labor Statistics (BLS).

Replacing the current CPI-W with the chained CPI would reduce annual cost-of-living adjustments, on average, by about 0.3 percentage points per year, according to the Social Security Office of the Chief Actuary. Unlike other proposals to reduce Social Security benefits, such as raising the retirement age or changing the
benefit formula, which have been designed to affect only future retirees, proposals to switch to the chained CPI consistently apply to individuals already receiving benefits, as well as future beneficiaries.\(^7\)

The impact of a COLA reduction compounds over time: the longer an individual receives benefits, the deeper the cut. Long-term beneficiaries—the oldest old and individuals who become disabled at an early age—would experience the deepest percentage cuts from shifting to the chained CPI. Figure 1 shows the effect that reducing the COLA by adopting the chained CPI would have on monthly Social Security benefits compared to current law. The application of the COLA starts at the Early Eligibility Age, age 62, regardless of when benefits are claimed and reduces benefits by roughly 0.3 percent per year compared to current law.\(^8\) Thus, as Figure 1 demonstrates, though cuts begin relatively small—at age 65, monthly benefits are less than 1 percent lower under the chained CPI than under current law”—the cuts from the reduced COLA add up each year. At age 95, monthly benefits would be almost 10 percent lower than under current law.

### What’s the Difference between the CPI-W and the chained CPI?

To calculate the current CPI, the BLS measures changes in the cost of a market basket of goods and services each month. It uses surveys of consumer spending, updated every two years, to adjust the items included in the market basket. A key difference between the current CPI and the chained CPI is that the latter adjusts for consumers’ substituting items in a different category when their relative prices change; for example, buying chicken instead of beef if beef prices rise. The current CPI only adjusts for substituting items in the same category; for example, buying a different, cheaper, variety of apple if the price of a particular variety of apple rises.

![Figure 1. Percent cut in monthly benefits from chained CPI, compared to current-law benefits](image)

Table 1 shows the way in which the benefits of three illustrative Social Security beneficiaries would be affected as they age to 80, 90 and 95 if the chained CPI were in effect when these individuals claimed benefits. The first two examples are of individuals with monthly benefits of $890, approximately the median monthly benefit received by Black women 65 and older living alone in 2009, and $1,100, approximately the median monthly benefit of all women 65 and older living alone (“single elderly women”) in 2009.\(^9\) The third example is of an individual with...
a monthly benefit of $1,400, the monthly benefit of an individual age 65 in 2010 who earned the equivalent of the average wage over a 35-year worklife.\textsuperscript{11}

Table 1. Effect of reduced COLA from chained CPI on monthly and annual benefits compared to current-law benefits on certain beneficiaries as they age to 80, 90 and 95

<table>
<thead>
<tr>
<th>Median benefit, single elderly Black women</th>
<th>Monthly:</th>
<th>$890</th>
<th>$1,100</th>
<th>$1,400</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current-law monthly and annual benefits at 65</td>
<td><strong>Difference in monthly benefit at age 80 (reduced by 5.1%)</strong></td>
<td>-$45</td>
<td>-$540</td>
<td>-$71</td>
</tr>
<tr>
<td></td>
<td><strong>Difference in annual benefit at age 80 (reduced by 5.1%)</strong></td>
<td>-$56</td>
<td>-$672</td>
<td>-$852</td>
</tr>
<tr>
<td></td>
<td><strong>Difference in monthly benefit at age 90 (reduced by 7.9%)</strong></td>
<td>-$70</td>
<td>-$840</td>
<td>-$111</td>
</tr>
<tr>
<td></td>
<td><strong>Difference in annual benefit at age 90 (reduced by 7.9%)</strong></td>
<td>-$87</td>
<td>-$1,044</td>
<td>-$1,332</td>
</tr>
<tr>
<td></td>
<td><strong>Difference in monthly benefit at age 95 (reduced by 9.2%)</strong></td>
<td>-$82</td>
<td>-$82</td>
<td>-$1,332</td>
</tr>
<tr>
<td></td>
<td><strong>Difference in annual benefit at age 95 (reduced by 9.2%)</strong></td>
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<td>-$1,212</td>
<td>-$1,548</td>
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</tbody>
</table>

Table 1. Effect of reduced COLA from chained CPI on monthly and annual benefits compared to current-law benefits on certain beneficiaries as they age to 80, 90 and 95

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<tr>
<th>Median benefit, all single elderly women</th>
<th>Monthly:</th>
<th>$10,680</th>
<th>$13,200</th>
<th>$16,800</th>
</tr>
</thead>
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</table>


For example, an individual who at 65 received a monthly benefit of $890 would receive $45 less per month and $540 less per year at 80 and $70 less per month and $840 less per year at 90. An individual who received a monthly benefit at 65 of $1,100 would receive would receive $56 less per month and $672 less per year at 80 and $87 less per month and $1,044 less per year at 90. An individual who earned the average wage throughout his or her career (about $43,000 in 2010 dollars) would receive $71 less per month and $852 less per year at 80 and $111 less per month and $1,332 less per year at 90. The percentage cuts are the same across different benefit levels at the same ages, but the dollar reduction is greater for individuals with higher benefit levels.

The cuts from switching to the chained CPI may look small to some policy makers and editorial writers, but they would seriously affect the ability of many elderly beneficiaries to make ends meet. For example, the average monthly cost of food for a single elderly individual is $231 per month ($53 per week in 2010 dollars), based on national data from the Elder Economic Security Standard Index developed by Wider Opportunities for Women and the University of Massachusetts, Boston.\textsuperscript{12} Thus a benefit cut of $56 per month, or $672 per year—the cut at age 80 from the reduced COLA for an individual with an initial monthly benefit of $1,100—is equivalent to over a week’s worth of food each month or 13 weeks of food that year. Figure 2 illustrates how many weeks of food an individual with a current-law monthly benefit of $1,100 would have to forgo annually at different ages to make up for the reduction due to the new COLA over the course of 30 years of benefit receipt.
Not only do cuts to monthly and annual benefits grow deeper with each year of benefit receipt, but also the losses accumulate over time. Table 2 shows the cumulative effect that reducing the COLA by adopting the chained CPI would have on illustrative Social Security beneficiaries as they age.

Table 2. Cumulative effect of reduced COLA from chained CPI on benefits compared to current-law benefits on certain beneficiaries as they age to 80, 90 and 95

<table>
<thead>
<tr>
<th>Current-law monthly and annual benefits at 65</th>
<th>Cumulative difference by age 80</th>
<th>Cumulative difference by age 90</th>
<th>Cumulative difference by age 95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median benefit, single elderly Black women</td>
<td>Monthly: $890</td>
<td>-$5,149</td>
<td>-$12,234</td>
</tr>
<tr>
<td></td>
<td>Annual: $10,680</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median benefit, all single elderly women</td>
<td>Monthly: $1,100</td>
<td>-$6,364</td>
<td>-$15,121</td>
</tr>
<tr>
<td></td>
<td>Annual: $13,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit, average lifetime earner</td>
<td>Monthly: $1,400</td>
<td>-$8,100</td>
<td>-$19,245</td>
</tr>
<tr>
<td></td>
<td>Annual: $16,800</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 3 illustrates how the benefit losses from switching to the chained CPI accumulate for a woman with an initial benefit of $1,100 (the median benefit of single elderly women in 2009). A relatively small cumulative loss of $115 at age 65 grows to more than $6,300 at age 80 and more than $15,000 at age 90, the equivalent of more than a year’s worth of benefits.

![Figure 3. Loss of cumulative benefits for a single elderly woman with monthly benefit of $1,100 from chained CPI as she ages from 65 to 95](image)


♦ The deeper cuts for older beneficiaries from the chained CPI particularly threaten older women’s economic security because of women’s longer life expectancy, greater reliance on Social Security, and greater risk of poverty.

At 65, the average life expectancy for women is 19.7 years, compared to 17.0 for men.\textsuperscript{13} But this does not fully capture the difference in the odds that men and women who reach age 65 will live to 80, 90, or 95. Table 3 shows that for individuals who reach 65, women are 1.6 times as likely as men to live to 90 and twice as likely as men to live to age 95.\textsuperscript{14}

**Table 3. Survivorship from age 65 for men and women**

<table>
<thead>
<tr>
<th></th>
<th>% surviving to age 80</th>
<th>% surviving to age 90</th>
<th>% surviving to age 95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men age 65</td>
<td>59%</td>
<td>19%</td>
<td>6%</td>
</tr>
<tr>
<td>Women age 65</td>
<td>70%</td>
<td>30%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: NWLC calculations from National Vital Statistics Reports, U.S. Life Tables, 2006
Because of longer life expectancy, women make up an increasingly large percentage of Social Security beneficiaries at older ages. At ages 65 to 69, 53 percent of beneficiaries are women; at ages 85 to 89, 65 percent of beneficiaries are women; and at ages 90-99, 73 percent of beneficiaries are women. Because of women’s longevity and their increasing proportion of the beneficiary population as it ages, the deep cuts to benefits for the oldest beneficiaries from the chained CPI would significantly affect women.

In addition, women rely more on income from Social Security than men do, as Table 4 shows. Thus, an equal percentage cut in benefits would represent a larger percentage cut in women’s total income. Moreover, reliance on income from Social Security increases even more for women than for men as they age, as Table 4 shows.

Table 4: Reliance on Social Security by men and women as they age

<table>
<thead>
<tr>
<th>Proportion of family income from Social Security</th>
<th>Percentage of Male Beneficiaries</th>
<th>Percentage of Female Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Age 65-69</td>
<td>Age 80+</td>
</tr>
<tr>
<td>50% or more</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>90% or more</td>
<td>17%</td>
<td>25%</td>
</tr>
<tr>
<td>100%</td>
<td>10%</td>
<td>14%</td>
</tr>
</tbody>
</table>


For example, at ages 65 to 69, about 10 percent of male and 13 percent of female beneficiaries receive 100 percent of their family income from Social Security. At ages 80 and older, 14 percent of men receive 100 percent of their income from Social Security: a 4 percentage point increase. In comparison, at ages 80 and older, 23 percent of women receive 100 percent of their income from Social Security: a 10 percentage point increase. In addition, nearly 40 percent of women 80 and older, compared to 25 percent of men, rely on Social Security for virtually all of their income (90 percent or more).

Thus, the oldest women, who would face the largest percentage reductions in benefits from switching to the chained CPI, are also substantially more reliant on Social Security than the oldest men.

Finally, even with Social Security’s current COLA, older women are at greater risk of poverty and economic insecurity than older men. The poverty rate for female Social Security beneficiaries 65 and older, 9.8 percent, was nearly double that of male beneficiaries 65 and older, 5.0 percent in 2008.

Moreover, poverty rates increase with age for older women living alone, but decrease for older men living alone. As Figure 4 shows, at age 80 and older, the poverty rate for female beneficiaries who live alone is more than one percentage point higher than for female beneficiaries 65 to 79 who live alone. In contrast, the poverty rate for male beneficiaries 80 and older who live alone is over one percentage point lower than the poverty rate for male beneficiaries 65 to 79 who live alone.
Thus, the deeper benefit cuts for the oldest beneficiaries that result from shifting to the chained CPI would increase the already heightened risk of poverty for older women.

**For Social Security beneficiaries, the chained CPI is a *less* accurate measure of changes in the cost of living than the current CPI-W.**

Proponents of shifting to the chained CPI have justified it as a “technical improvement” to the cost-of-living index, not just another benefit cut. Some economists view the chained CPI as a more accurate measure of cost-of-living changes than the CPI-W because the former but not the latter takes account of the fact that when certain goods become more expensive, consumers adjust their spending patterns and substitute different, less expensive goods.

However, the spending patterns of Social Security beneficiaries, who are overwhelmingly older people and people with disabilities, are different from those of other consumers. They spend a larger share of their income on health care than other people—and the cost of health care rises more quickly than the cost of other goods.

For people 65 and older the share of spending devoted to health care is two times as large as the share of spending for consumers generally; for people 75 and older, the share of spending devoted to health care is two and one-half times as large as the share of spending for consumers generally. These health care expenditure data do *not* include health costs paid by employers or by federal government programs; thus, the data show that even with Medicare, out-of-pocket health care expenses are a greater burden on the budgets of older households than on consumers generally.

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**Figure 4. Poverty of Social Security beneficiaries by age**

<table>
<thead>
<tr>
<th>Male Beneficiaries Living Alone</th>
<th>Female Beneficiaries Living Alone</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>65 - 79</strong></td>
<td>11.2%</td>
</tr>
<tr>
<td><strong>80+</strong></td>
<td>9.5%</td>
</tr>
</tbody>
</table>

Source: NWLC calculations based on CPS 2010.
If the cost of health care rose at about the same rate as other consumer items, the fact that older individuals spend relatively more on health care would not matter in ensuring that Social Security benefits keep pace with cost-of-living changes. However, health care costs have consistently risen more rapidly than other costs. Between December 1982 and December 2009, health care costs rose by an average rate of 5.2 percent per year, compared to an average annual rate of 2.9 percent for other costs.\textsuperscript{25}

Though the CPI-W accounts for the faster rise in health care costs, it is based on the budget of an average consumer. Thus, it is not designed to account for the fact that health care costs comprise a significantly larger portion of the average Social Security beneficiary’s budget than they do the budget of the average consumer.

The Older Americans Act of 1987 directed the Bureau of Labor Statistics to develop an alternative experimental consumer price index for older individuals, the CPI-E. The CPI-E takes account of the spending patterns of older individuals, including their greater spending on health care.\textsuperscript{26} In contrast, the CBO found that compared to the CPI-E, the \textit{current} CPI-W understated the effects of inflation on older individuals by about 0.3 percentage points per year between 1983 and January 2009, primarily because of the rapid rise in cost of medical care.\textsuperscript{27}

Thus, there is strong evidence that the current CPI-W \textit{understates} rather than \textit{overstates} the effects of cost-of-living changes on older individuals because the CPI-W does not account for older individuals’ greater health care spending, compared to consumers overall, and because health care costs are rising more quickly than those of other items in the budget.\textsuperscript{28}

The current CPI-W fails to adequately maintain the purchasing power of Social Security benefits for elderly beneficiaries burdened by rapidly rising health care costs. Switching to the chained CPI would exacerbate this inadequacy. The chained CPI suffers from the same shortcoming as the current CPI—it fails to account for the larger proportion of beneficiaries’ budgets spent on health care. However, because the chained CPI is designed to allow for more substitution of different types of goods by consumers, it also rises more slowly than the CPI-W, meaning the value of benefits would erode more quickly under the chained CPI. A more accurate measure of changes in the cost of living for Social Security beneficiaries would use a special price index for the elderly and increase cost-of-living adjustments, not erode them further, as the chained CPI would do.\textsuperscript{29}

In short, shifting to the chained CPI is not a more accurate way of adjusting Social Security benefits to reflect changes in the cost of living. It is simply a benefit cut.

\section*{Conclusion}

Shifting to the chained CPI to adjust Social Security benefits is not a mere technical change. It is a substantial cut in the Social Security benefits that millions of Americans rely on to make ends meet.

For women, shifting to the chained CPI is a triple whammy. Because women live longer than men, they face deeper cuts because the reduction from the chained CPI increases over time; because women are more reliant on Social Security than men, cuts to Social Security benefits are more painful to women; and, because older women are already more economically insecure than older men, cuts in Social Security benefits are more likely to produce serious hardship to women than men.

In addition, cutting Social Security benefits as part of a package to reduce the federal deficit is inappropriate. Social Security is a social insurance program with its own dedicated financing from workers and their employers. It has not contributed to the federal deficit; indeed, Social Security has reserves of $2.6 trillion, held in interest-bearing U.S. Treasury bonds backed by the full faith and credit of the United States.\textsuperscript{30} As Jacob Lew, the Director of the White House Office of Management and Budget wrote, “Blaming Social Security for our fiscal woes is like blaming you for not saving enough in your checking account because the bank lost all depositors’ money.
The problem is not Social Security; the problem is the mismatch between outlays and revenues in the rest of the budget.”

Social Security is not in crisis; the combination of Social Security’s dedicated revenues and reserves provide adequate resources to pay 100 percent of promised benefits for the next 25 years, and more than 75 percent of promised benefits after that.\textsuperscript{32} It would be prudent to take action to strengthen Social Security’s finances sooner rather than later—and to improve benefits at the same time. Those goals can be achieved without cutting already modest benefits. Broadening the Social Security tax base—for example, by raising or removing the cap on earnings subject to the Social Security payroll tax (now, earnings above $106,800 are not taxed), treating all salary reduction plans (such as health savings accounts and flexible spending accounts) like contributions to 401(k) plans, which are subject to payroll taxes, or considering other sources of revenue—could provide sufficient additional revenue to eliminate the entire shortfall and finance benefit improvements.\textsuperscript{33}

With most Americans, especially women, facing an increasingly insecure retirement, policy makers should be focusing on ways to make modest Social Security benefits more adequate, instead of considering cutting critical Social Security benefits by shifting to the chained CPI.
Endnotes


6. The change in the COLA is estimated to reduce the COLA by 0.3 percentage points per year which results in slightly less than 0.3 percent reduction in benefits each year. U.S. Social Security Administration, Office of the Chief Actuary, Memo to Fiscal Commission, “Estimates of the OASDI Financial Effects of the plan developed by National Commission on Fiscal Responsibility and Reform, December 1, 2010” (Dec. 1, 2010) (“Actuary’s Memo December 1, 2010”) available at [http://www.ssa.gov/oact/solvency/index.html](http://www.ssa.gov/oact/solvency/index.html).


17. *Ibid.*; NWLC calculations based on Table 11.4.

18. Elderly women and men living alone are compared to separate out the economic effects of widowhood which increases the risk of poverty for both men and women.


20. See, for example, Bowles-Simpson report, * supra* note 1, at 52.

21. CBO, *Different Measure of Inflation*, * supra* note 3. The CPI-W only accounts for substitution within categories—for example, if the price of a certain type of apple rises, the CPI-W assumes that the consumer will buy a different, cheaper, variety of apple.

22. Though beyond the scope of this paper, beneficiaries of Supplemental Security Income, the federal program for poor aged and disabled individuals, are also different from other consumers in ways that similarly make it inappropriate to apply the chained CPI to their benefits.


The National Women’s Law Center is a nonprofit organization that has been working since 1972 to advance and protect women’s legal rights. The Center focuses on major policy areas of importance to women and their families, including family economic security, employment, education, and health and reproductive rights.

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