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Affiliated with the Rhode Island AFL-CIO

April 11, 2013 E-Newsletter



SPECIAL ISSUE ON THE OBAMA BUDGET CHAINED CPI

How Obama's budget trims Social Security checks

The president's plan involves a controversial inflation index that would save \$230 billion by shrinking annual payment hikes.

By Aimee Picchi

Social Security might be viewed as one of working Americans' unassailable rights, but President Barack Obama's new proposal is taking aim at how those payments are doled out.

Under his budget proposal, released Wednesday, Social Security benefits would shrink by having their annual cost-of-living adjustments linked to the chained CPI, a version of the consumer price index that's used as a way to keep federal benefits on track with inflation.

But the chained CPI grows more slowly than the calculation that's currently used, according to AARP.

In effect, the change to a chained-CPI adjustment would serve as "a stealth tax on the middle class and a cut in benefits for Grandma," according to Business Insider.

So how does it work? The chained CPI is calculated under the assumption that workers will switch to cheaper alternatives when prices rise. So if that pound of **Starbucks** (SBUX +0.87%) coffee is too expensive, you'll drink generic supermarket-brand soda instead. Want beef for dinner? If it's too expensive, the index assumes you'll buy a cheaper meat, like chicken.

Chained CPI grows at a rate that's 0.25% to 0.3% slower than the ordinary consumer price index, notes CNNMoney. That might not seem like a lot, but over a period of years, seniors will effectively see payments cut by hundreds if not thousands of dollars.

The benefit for the budget will be a savings of \$230 billion, which was mentioned in a single line near the bottom of Obama's budget overview.

"For a lot of elderly people, Social Security is virtually their only source of income," Paul Van de Water, a senior fellow at the Center on Budget and Policy Priorities, told CNNMoney. "A decrease of almost \$600 a year . . . for people in that situation is very significant."

AARP is urging its members to protest the proposal, asking supporters to send a message to their members of Congress that reads, "One proposal, chained CPI, would change the cost-of-living adjustment (COLA) for Social Security benefits and cut your benefits by over \$2,000 over the next 10 years alone."

Given the range of the cuts, it's no surprise that AARP says more than two-thirds of older voters oppose switching to chained CPI.

Granted, it's just a proposal, but it's likely to receive vigorous debate on both sides as the U.S. grapples with the deficit. For the elderly, though, the outcome will strike close to home: CNNMoney notes that a typical elderly single woman would see a reduction equal to a week's spending on food each month.

Rhode Island Alliance for Retired Americans

This is very real. It will impact all Social Security beneficiaries. The Rhode Island Alliance for Retired Americans also is urging its members to protest the proposal, asking supporters to send a message to their members of Congress that reads, "One proposal, chained CPI, would change the cost-of-living adjustment (COLA) for Social Security benefits and cut your benefits by over \$2,000 over the next 10 years alone."

Also in the Budget. If you purchase a Medicare Supplement Plan, not an HMO Plan, you will be charged a sur-charge on top of the monthly premium. See statements from our Congressional members on pages 3 & 4.

OP-ED on the President's budget proposal cuts to Social Security & Medicare, specifically the Chained CPI .

President Obama Wrong to Propose Immediate Cuts on Social Security Beneficiaries

*By John A. Pernorio, President,
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Unfortunately, President Obama included cuts to the Social Security cost of living adjustments (COLA) in his recent budget release. These cuts, in the form of the chained CPI formula, could have an impact on over 203,660 Social Security beneficiaries in Rhode Island.

Although the President's budget will not be voted on, there is cause for concern that a "grand bargain" coming down the pike would include similar cuts and impact retirees significantly.

The chained CPI formula for calculating Social Security cost-of-living adjustments (COLAs) does not reflect the economic activity of seniors and amounts to immediate benefit cuts for current beneficiaries. Estimates are that someone who retires this year would lose more than \$6,000 in benefits over 15 years if the chained CPI were in effect, because it would decrease the already low cost-of-living inflationary protections.

First off, the idea of adopting the chained CPI as part of deficit reduction efforts is truly bad policy, because the program does not contribute to the deficit to begin with. The Social Security system by law cannot borrow money and has not contributed to our nation's deficit. To cut benefits by adopting the Chained CPI in the name of deficit reduction is just plain wrong. It asks seniors to pay for a fiscal debacle they did not create out of their very modest Social Security benefits.

The chained CPI is also bad policy because the current COLA already vastly under-estimates the inflation experienced by seniors and people with disabilities – and the chained CPI would take this a step further.

Social Security benefits are modest by virtually any measure. The average annual Social Security benefit in Rhode Island is **under \$13,130** per year. Beneficiaries who live on very modest means cannot easily absorb such a large cut to their benefits. Additionally, our nation is facing a retirement income crisis, and cutting Social Security will make that crisis even worse.

The so-called Chained CPI is based on an economic theory that goes something like this: Your doctor tells you that you need triple heart by-pass surgery. You will opt for the cheaper alternative, a double by-pass. I'm not making this up.

The chained CPI assumes that a lower COLA is acceptable because consumers substitute cheaper products when prices go up. Health care costs, however, consume a large amount of seniors' income. These costs cannot simply be substituted with a cheaper version.

Seniors must spend more of what we have on health care, prescription drugs, energy than the general population. The Chained CPI does not take these facts into account.

Our elected officials should not play with the well-being of seniors in such a matter-of-fact way. The chained CPI is a flat-out benefit cut for Social Security beneficiaries. There are better ways to strengthen Social Security that do not involve throwing our seniors under the bus.

Rhode Island Alliance for Retired Americans is a state organization with over 3000 members that works to protect the health and economic security of retirees and older Americans.

State Social Security info by state: <http://strengthen-social-security.org/resources/state-reports>



Senator Sanders: I'll fight Obama's Social Security cuts

On the very day that a bleak jobs report showed how feeble the recovery is, the White House revealed that the president will propose a budget that features cuts in Social Security. This was designed to get Republicans to agree to negotiate a grand bargain on deficit reduction — or to prove that they are obstructing any deal.

House Speaker John Boehner's reflexive reaction immediately revealed the political folly of the president's ploy:

"If the president believes these modest entitlement savings are needed to help shore up these programs, there's no reason they should be held hostage for more tax hikes." (Emphasis added)

The exchange has Republicans salivating. Cutting Social Security becomes the president's choice, not something extorted by Republicans. If Democrats stand for anything, it is defense of Social Security and Medicare, the United States' most beloved and vital social programs, a proud legacy of the New Deal and the Great Society. The president's negotiating ploy puts every Democrat supporting the president's budget in a contested reelection race at peril in 2014. Democrats will face a flood of ads accusing them of wanting to cut Social Security and face the wrath of seniors who constitute a greater percentage of the vote in midterm elections.

If Democratic leaders Nancy Pelosi and Harry Reid have any

sense, they will organize their entire caucuses and pledge to oppose any deal that cuts a dime from Social Security benefits.

The economics of the president's proposal are even worse than the politics. The crisis we face in Social Security isn't that the benefits are too generous; it is that more and more Americans lack the savings for a secure retirement. Decades of wage stagnation and the corporate rollback of pensions have sapped worker savings. The Wall Street wilding that produced the Great Recession savaged what little wealth workers had stored in the value of their homes when the housing bubble collapsed, as well as their 401(k)s and IRAs when the stock market imploded. Fifty-five percent of all workers have no retirement plan at work. Only about 15 percent of private-sector workers have traditional employer pensions with a guaranteed benefit.

Corporations used the turn to 401(k) individual savings accounts to drastically slash their retirement contributions. This hidden pay cut has had devastating effects. With wages not keeping up with costs, workers have been unable to save much on their own. Fifty-seven percent of workers report less than \$25,000 in total savings other than the value of a home or a defined-benefit pension.

Many families are wracked by either the loss of a job or a

medical crisis that upends their finances, exhausting their savings and forcing them to pay penalties to tap their retirement accounts. Yale political scientist Jacob Hacker has shown that more than one in five Americans lost at least a quarter of their available household income during the Great Recession.

Social Security's austere payments — averaging \$1,262 per month — replace only about 33 to 40 percent of annual earnings, when most experts argue retirees need about 70 percent of their income to maintain their living standards in retirement. Sixty percent of Americans receive at least two-thirds of their retirement income from Social Security, with the bottom 40 percent receiving 84 percent of theirs from Social Security.

Yes, we need to reform Social Security, but the reform should increase, not cut the income support that millions rely on. In an important political blueprint for sensible reform released by the New American Foundation, Michael Lind, Steven Hill, Robert Hiltonsmith and Joshua Freedman call for adding a supplement to Social Security that would guarantee all retirees about 60 percent of their average wage in retirement (similar to that of most other developed nations).

They would pay for the expanded benefit not by increasing the payroll tax rate but by eliminating tax breaks for the wealthy, particularly those now

offered to private retirement plans that disproportionately benefit the wealthy (à la Mitt Romney's famous \$100 million IRA plan) They would also lift the payroll cap to make Social Security financially stable.

The authors argue that the United States would end up spending about the same percentage of gross domestic product on the overall retirement system, but with a much fairer distribution of support. This would also stabilize and improve the overall economy since the elderly will spend those extra dollars, giving a boost to aggregate demand.

The greatest power of a president is the power to set the agenda. He (or eventually she) is the great teacher, and Barack Obama is one of the most skilled. This president now could be informing Americans that deficits are plummeting and that we must address the human tragedy of mass unemployment. He could be rallying Americans to address the growing retirement crisis. He could focus attention on continuing to challenge the entrenched interests that drive up costs in our health system, the greatest source of our long-term debt concerns.

Instead he is fixated on more austerity, on a "grand bargain" that will include cuts to already inadequate Social Security payments. That is a lousy deal, not a grand bargain for most Americans.

Rally Against The Chained CPI At The White House On Tuesday, April 9th



REACTION FROM OUR CONGRESSIONAL DELEGATION



Reed Statement on the President's FY 2014 Budget Request

WASHINGTON, DC – U.S. Senator Jack Reed, a member of the Appropriations Committee, today issued the following statement on the release of the President's Fiscal Year (FY) 2014 budget request:

"This budget is a mixed bag. It includes some smart pro-jobs, infrastructure, and education investments, like the \$1 billion initiative to create new manufacturing and innovation centers. Jobs remain my focus and I'd like to see one of these hubs anchored in Rhode Island. But it falls short on other specific priorities, like LIHEAP and

weatherization. And I remain adamantly opposed to cutting Social Security and using accounting changes to reduce future cost-of-living increases as a means to reduce the deficit.

"The President's budget is just one part of the process and I look forward to working with my colleagues on both sides of the aisle to make smart public investments to improve our economy now, and in the future. We need a responsible and balanced approach to the economy to keep the promises we've made to our seniors, families, and veterans."

Sen. Whitehouse: President's Budget Cuts Benefits for Seniors

Washington, DC – U.S. Senator Sheldon Whitehouse released the statement below today regarding President Obama's budget proposal:



"I made a promise to the people of Rhode Island that I would always oppose cuts to Social Security, and I'm going to keep that promise. Social Security is fully solvent for the next twenty years, has not contributed to our budget deficits, and has no place in this debate over federal spending. The so-called 'chained CPI' proposal included in President Obama's budget is nothing more than a benefit cut disguised behind technical jargon. While I commend the President for including some smart provisions in his budget like investments in infrastructure and the Buffett Rule for tax fairness, I cannot support a proposal that would force seniors to pay for deficits Social Security had no part in creating."

Senator Whitehouse is a member of the Senate Budget Committee. He has repeatedly opposed attempts to cut Social Security, and is a co-sponsor of the **Keeping Our Social Security Promises Act**, which would ensure that Social Security remains solvent for the next 50 years by asking the wealthiest Americans to pay their fair share into the system. He has also argued that the existing formula used to calculate annual cost-of-living adjustments short changes seniors, and has called for a more accurate measure of inflation – the opposite of what chained CPI would produce.

LANGEVIN STATEMENT ON OBAMA BUDGET PROPOSAL

Continues call to replace sequestration with responsible approach



WARWICK, RI – Congressman Jim Langevin (D-RI) issued the following statement in reaction to the proposed budget released by President Obama today:

"The President's budget recognizes that the most effective solution to our economic challenges is to strengthen the middle class, create quality jobs and train a workforce with the skills to excel in 21st Century industries. By taking a balanced approach of targeted spending cuts combined with new revenues from eliminating tax breaks for the very wealthy and big corporations, we can reduce our deficit while investing in areas that grow our economy, such as education and job training, infrastructure modernization and research and development. This proposal represents a framework to find a long-term compromise to replace the irresponsible across-the-board cuts imposed by sequestration that are falling heavily on our most vulnerable citizens.

"While I applaud the President's overall message, I do not support his plan for Social Security, which would reduce cost of living adjustments at a time when seniors' expenses are rising. This program has kept millions out of poverty without adding to the debt, and I will continue to advocate for alternatives that would put it on sound footing for generations to come."

Cicilline Statement on Inclusion of Chained CPI in President's Budget



WASHINGTON – U.S. Congressman David N. Cicilline (D-RI), who serves on the House Budget Committee, issued the statement below following the release of President Obama's budget proposal:

"The President's budget includes several important investments in our country's future and outlines a clear plan for creating jobs and supporting our economic recovery. However, as I have emphasized repeatedly over the last two years, I strongly oppose any plan to cut Social Security or Medicare benefits."

"I am disappointed that this budget proposal includes the use of chained CPI, which reduces benefits that seniors, veterans, and people with disabilities have earned over the course of their lives. Rather than cutting benefits for hardworking Americans, Congress should work to enhance the longevity of these vital programs by reforming our tax code, ending subsidies for Big Oil, and making responsible, targeted spending cuts."

Social Security's needed expansion

By *Katrina vanden Heuvel*,
The Washington Post Tuesday

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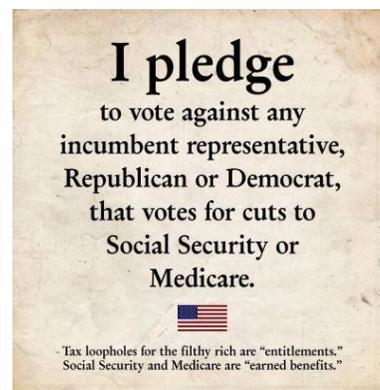
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National and State Chained CPI Survey

AARP has done an extensive national poll and also polling in key states on the Chained CPI and is sharing the results before making a public announcement. The polling shows that Americans over 50 overwhelmingly disapprove of changing the Social Security COLA to the Chained CPI. Here is a link to the home page with the national survey poll and there are links to state specific data for the following states: Arkansas, Colorado, Delaware, Florida, Illinois, Indiana, Louisiana, Maine, Montana, New York City, New York State, North Carolina, Pennsylvania, South Carolina, and Virginia.

<http://www.aarp.org/work/social-security/info-03-2013/social-security-cola-chained-cpi.html>



**TAKE
THE
PLEDGE**