



Economist and social insurance expert statement on Social Security COLA

No empirical basis for reducing the Social Security COLA

November 20, 2012 — *250 Ph.D. economists and more than 50 social insurance experts with doctorates in related fields oppose proposals to reduce the Social Security cost-of-living adjustment by tying it to an index (the chained CPI-U) that does not reflect the spending patterns of beneficiaries.*

As economists and social insurance experts, we agree that the annual Social Security cost-of-living adjustment (COLA) should be based on the most accurate measure possible of the impact of inflation on beneficiaries. For this reason, we oppose proposals to reduce the Social Security COLA by tying it to a chained consumer price index that does not directly measure the actual expenditures of beneficiaries. Such a move would lower the COLA by an estimated 0.3 percentage points per year, translating into a 3 percent benefit cut after 10 years and a 6 percent cut after 20 years. The oldest beneficiaries, who are often the poorest beneficiaries, and persons receiving disability benefits for more than 20 years would see even larger cuts over time.

Arguments in favor of reducing the COLA are premised on the assumption that the current COLA overcorrects for inflation. However, it is just as likely that the current COLA fails to keep up with rising costs confronting elderly and disabled beneficiaries. For historical reasons, the current COLA is based on a consumer price index for workers, excluding retirees and other Social Security recipients who are not in the labor force. It and other indices based on the spending patterns of workers or the general population likely understate the impact of cost increases faced by Social Security beneficiaries because seniors and disabled people spend a greater share of their incomes on out-of-pocket medical expenses than do other consumers, and health costs have risen faster than overall inflation in recent decades.

A chained price index is supposed to more fully reflect the ability of consumers to substitute cheaper goods and services in response to price changes. Whether or not such substitution preserves consumers' standards of living, different consumers have varying ability to make such adjustments. Since elderly and disabled people spend a greater share of their incomes on necessities such as health care, rent, and utilities, and since this population is also less mobile, a chained COLA based on the spending patterns of workers or the general population may overestimate the ability of Social Security beneficiaries to take advantage of cheaper substitutes.

The actual spending patterns of Social Security beneficiaries have not been comprehensively studied. However, an experimental index computed by the Bureau of Labor Statistics suggests that the current COLA may not keep up with seniors' costs of living. Until direct evidence is gathered, there is no empirical basis for reducing the Social Security COLA, which could exacerbate, rather than correct, an existing problem.

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The organizations of the signatories are listed for identification purposes only; the signatories are representing themselves, not their organizations.

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