

Retiree Advocate

A State Affiliate of the National Alliance for Retired Americans

July/August 2011 Edition

President's Corner

Jean Friday, President of PARA

Watch out for the Chained CPI

Social Security is currently the principal source of income for nearly two-thirds of older American households receiving benefits, and roughly one third of them depend entirely on Social Security benefits for nearly all of their income. Over the past two years, beneficiaries have not received any COLA increases to their monthly checks.

The current COLA calculation, known as the CPI-W (the Consumer Price Index for Wage earners) doesn't capture the true cost of living for Social Security beneficiaries. It fails to take into account the large increases in the cost of health care, which fall particularly hard on the elderly and people with disabilities, the core beneficiaries of Social Security.

There are some other options. Social Security could use the CPI-E (E for Elderly), which does a better job of capturing real costs for seniors. Or they could create a real Consumer Price Index specifically targeted to people who collect Social Security, weighting their average expenses accordingly, and raise benefits based on that. Or, they can use the chained CPI, which assumes that a lower COLA is acceptable because seniors substitute cheaper products when prices go up. This assumption ignores the fact that health care costs have been outpacing inflation increases for more than the past decade. According to the Social Security Actuary, moving to the chained CPI would mean an immediate benefit cut and big, lifetime losses for the average Social Security beneficiary. Research from the Bureau of Labor Statistics (BLS) shows that accounting for this switch would reduce the annual inflation rate by about 0.3 percentage points. The chained CPI has been discussed in the recent deficit negotiations.

The chart below may give retirees a sense of how this deal could affect them. The middle line shows today's benefit calculation-FLAT! The top line shows how much benefits would increase under the CPI-E as living expenses are going up for America's seniors. Moving to the bottom line, it shows how those benefits would be reduced under the "chained CPI" method. COLA adjustments should be **increased**, not reduced.

Social Security Benefit Levels Under Various CPI Measures
(For Medium Earner Retiring At Age 65, in wage-indexed 2011 dollars)



Source: Chief Actuary, Social Security Administration, June 2011.
Note: These calculations apply once the chained CPI and scheduled increase in the retirement age to 67 are fully phased in, by 2015 and 2022, respectively.

The 2011-2012 State Budget

Adam Swope, ARA Staff

Earlier this summer, the Pennsylvania Legislature passed their first on-time budget in many years. Despite this feat, the substance of the budget left much for Pennsylvania Seniors to be concerned about. The total budget represents a cut in state spending of close to \$1 Billion. However, the legislature and the governor chose not to spend the state's surplus from last year. Revenue from 2010-2011 vastly outpaced expectations, leaving the state with an extra \$786 Million. However, instead of using that money to offset cuts, only \$200 Million was spent. Here are the highlights of the budget in a nutshell:

Impact on Seniors:

- Basic K-12 Education received an overall cut of about 6%. This cut will force local school districts to raise property taxes, making it tougher for seniors to stay in their homes.
- Seniors may also see their County tax bill go up as a result of cuts to child welfare, job training, addiction rehab, homeless services, and other human service programs.
- Seniors in long-term care paid for by Medicaid will see their benefits reduced, including restrictions to only 6 prescriptions per month and only 1 set of dentures in a lifetime.
- Seniors who rely on Medical Assistance Transportation to get to their doctor will see their fees increased due to a 13% cut.
- A cut of 6% was made to Services to Persons with Disabilities, while the Attendant Care Program was cut by 14%.

Other Items of Interest:

- Pennsylvania's public universities and community colleges received cuts ranging from 10% to 20%.
- The Department of Environmental Protection was cut by almost 7%, while the Department of Conservation and Natural Resources was cut by 33%.
- State Parks and State Forests saw their funding reduced 41% and 51% respectively.
- The Department of Community and Economic Development was cut by 35%.
- Housing programs received combined cuts of 57%.
- The Department of Corrections' budget was **increased** by about 10%.

• The budget contains only enough transportation funding to do critical maintenance. The Governor's own Transportation Funding Advisory Commission recommended Billions more in funding to upgrade our road and rail infrastructure to make PA economically competitive.

• The budget for our Legislature, the most expensive legislature in the nation, received a tiny operating cut of about 1% over last year's budget.

• Legislators and the Governor refused to consider new revenue that would have offset the budget cuts. PA remains the only natural gas-producing state with no Extraction Tax, and one of only two states not to tax smokeless Tobacco and Cigars. Finally, they did not close the "Delaware Loophole" or any other corporate tax loopholes that currently allow 71% of PA corporations to pay no taxes at all!

Seniors and the Debt Ceiling Deal

Adam Swope, ARA Staff

Recently in Washington, critical programs for retirees' quality of life were hanging in the balance as our elected representatives dealt with a "crisis" regarding our national debt. The "crisis" was that the US had reached its legal borrowing limit, and therefore needed Congressional approval to increase that limit, allowing the government to continue to operate. This regulation, called the "Debt Ceiling" is routinely raised almost every year, including 2002, 2003, 2004, 2006, 2007, 2009 and 2010. Over these years, raising the debt ceiling has attracted votes from both Republicans and Democrats, and little to no media attention. After all, it's just a regulation.

Things were different in 2011. Conservative representatives and the Tea Party decided to politicize this poorly-understood bureaucratic issue. Members of Congress and the Senate who had previously voted to raise the Debt Ceiling with NO conditions, were now demanding harsh spending cuts, including cuts to Medicare, Medicaid and Social Security. This is despite the fact that they knew holding this vote hostage could potentially damage our economy by forcing default on our debt. Such a scenario would see financial markets all over the world tumble, while endangering the government's ability to pay Social Security, VA, Medicare or Medicaid benefits; or fund other critical government functions such as defense and public health agencies.

President Obama tasked Vice President Biden with hammering out a deal with Congressional Republicans to create a package that would reduce the deficit going forward in exchange for raising the debt ceiling. After agreeing to \$2.2 Trillion in spending cuts over the next 10 years, Democrats in the negotiations began to discuss raising revenue to further reduce the long-term budget deficit. Options ranged from closing loopholes in the tax code that rich individuals and big corporations use to avoid taxes, to allowing the income tax rate on the top bracket to return to the level it was at under President Clinton. Unfortunately, Republicans walked away from the negotiations at that point, refusing to compromise.

To avoid default, Congress came up with a last-minute plan. They raised the debt ceiling while creating budget caps that will save \$1 Trillion over the next 10 years. Congress also created a "Super-Committee" of Senators and Members of Congress to identify \$1.5 Trillion in deficit reduction by the end of the year. The Super-Committee plan may include tax increases or tax loophole reform, as well as cuts to any

---Continued on next column

---Continued from previous column

program, including Social Security and Medicare. The Super-Committee's plan will be voted on by Congress without amendments. If the plan is not adopted, automatic cuts to almost every agency, equaling \$1.5 Trillion, will occur. Half of that amount would come from defense spending. The only exceptions to these across-the-board cuts will be Social Security, Medicaid, VA benefits and pensions, civilian and military government payroll, SSI and programs for children such as school lunches. Medicare would see a 2% reduction in spending through cuts to providers and insurance companies, but no cuts to benefits or increase in premiums.

Since the debt deal was passed, one bond rating agency – Standard & Poors – has lowered the United States' credit rating. (The other two credit rating agencies kept our credit rating at AAA, the top rating.) Many conservatives have used this to support their draconian plans, such as the House Republican Budget that would end Medicare for anyone currently under 55 years of age. However, the rating agency cited three main causes for the downgrade – amount of US Debt, unwillingness to raise revenue and probability of default. That's right, the very idea that we would play politics with our debt ceiling in the first place was a big reason that we were downgraded!

The Alliance for Retired Americans will continue to advocate that we reduce our deficit without hurting seniors or hurting our economy. Let's remember, our deficit is the result of reckless tax cuts for the rich and new spending without responsible funding mechanisms such as the wars in Iraq and Afghanistan. Seniors didn't cause the deficit! Seniors deserve the benefits they've paid for! Social Security shouldn't be in the discussion at all, because its benefits are not paid out of the US Treasury, but out of its own trust fund instead.

We must take a balanced approach to deficit reduction, cutting defense and non-defense spending. We must also bring taxes for the rich back to reasonable levels – in the 90's the rich paid higher taxes, we had budget surpluses and a strong economy! We can also reverse the trend of tax cuts for Wall Street. Finally, we can eliminate corporate tax loopholes that help many gigantic companies pay NO taxes at all, while also closing loopholes for individuals such as mortgage deductions for 2nd homes. If we do all this and leave Social Security and Medicare out of the cuts, seniors' quality of life will not be impacted and they will continue to drive the economic recovery by spending their benefits in their communities. That's the best-case scenario: strong programs for seniors, a balanced budget, and a strong American economy. Let's hope our representatives are up to the task.

VISIT US ONLINE AT:

www.pennretiredamericans.org



**PENNSYLVANIA ALLIANCE FOR
RETIRED AMERICANS**
319 MARKET STREET, 3RD FLOOR
HARRISBURG, PA 17101
717-231-2866

ADDRESS CORRECTION REQUESTED

