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EXPANDING SOCIAL SECURITY:

Improved Benefits to Reflect the True Cost of Living

Social Security benefits should reflect the stark financial reality and growing medical costs that millions of seniors face. Switching to the CPI-E to calculate benefits is essential to ensuring low-income seniors' basic quality of life in their retirement.

What are the COLA and CPI?

Social Security benefits, paid monthly to nearly 53 million Americans, are adjusted for inflation once a year so that the benefits rise when the cost of living rises. This annual cost-of-living adjustment (COLA) is tied to changes in the consumer price index (CPI), which is the tool the Bureau of Labor Statistics (BLS) uses to measure inflation. The CPI measures price changes in the average "basket" of goods purchased by Americans: food, fuel, rent, and clothing are all examples of items included.

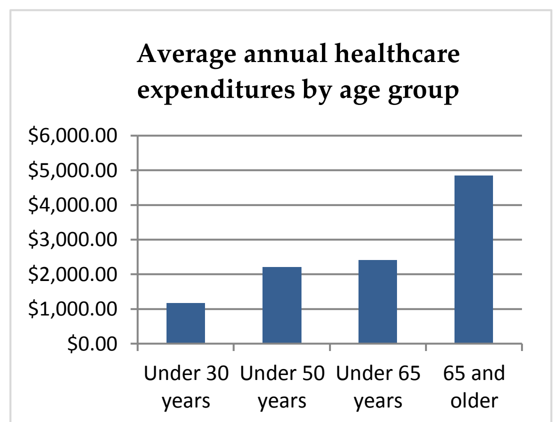
Unfortunately, the CPI does not reflect the true cost of living for most seniors. Different groups of people have different spending patterns, depending on where they live and how old they are, among other factors. To account for some of those differences, the BLS has created three different CPI's. Currently, adjustments to Social Security benefits are based on the CPI for urban wage earners and clerical workers (CPI-W), who represent about 32 percent of the U.S. population. The purchasing patterns of the typical retiree differ significantly, however, from those of the typical worker; health care in particular constitutes a much larger share of total expenditures for seniors, and the cost of those services is rising every year. In recognition of older Americans' unique spending patterns, the BLS created a new, "experimental" CPI. This index—known as the CPI-E—more accurately reflects the burden of medical costs on the pocketbooks of millions of seniors.

Why do the CPI's matter?

Seniors Spend a Growing Portion of Their Income on Health Care…

…But since this increased burden is not accounted for in the current CPI-W, seniors face inadequate annual adjustments to their benefits. Households headed by an individual age 65 or older spend two to three times as much of their budgets on medical care as younger households do – 15.4% compared to 5.3%. (Source: Consumer Expenditure Survey 2010)

In the near future, seniors—especially low-income seniors—will face a tough situation of rising annual medical costs but fewer dollars to put towards them. Between 2010 and 2040, median annual out-of-pocket costs for Americans age 65 and older will more than double in constant 2008 dollars, from about $2600 to $6200. (Source: Urban Institute 2010)



Source: Consumer Expenditure Survey, 2010

Why switch to the CPI-E?

- **Improved benefits to reflect the real cost of living:** If the CPI-E switch were implemented today, a 92 year-old retiree who is in the "low lifetime earner" category (average annual wages of $19,354) would see an increase in monthly benefits of about $53, which could cover a full week of groceries. This increase would grow as his or her medical costs also grow. (Sources: USDA 2012; NASI 2012)

- **Help those who need it most:** Switching to CPI-E would have the biggest impact on populations who spend a greater proportion of their income on medical care—older women, disabled people, retired people of color, and low-income seniors— and who often depend on Social Security as their primary source of income in retirement.

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