What is the Chained CPI?

Cost-of-living adjustments (COLAs) to federal civilian and military retirement annuities, as well as Social Security benefits, veterans' benefits and disability benefits, currently are determined by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which is computed by the Bureau of Labor Statistics (BLS) at the Department of Labor (DOL). The President's Budget for Fiscal Year 2014 included a proposal to use the Chained Consumer Price Index for All Urban Consumers (Chained CPI-U) instead of the CPI-W as a way to limit the growth of the national debt. The proposal was also included in the Republican Study Committee budget, which received the support of 104 Republican members of the House of Representatives. Previously, the proposal was part of the Simpson-Bowles Fiscal Commission report and has received serious consideration in budget negotiations between the White House and congressional Republicans.

Chained CPI Cuts Earned, Promised Benefits

Individuals who have worked their whole lives to earn their retirement benefits will receive less money in the future, and that sounds like a real benefit cut to them, because it is. Using the chained CPI instead of the CPI-W would reduce COLAs by an estimated 0.3 percent per year. Because this difference would compound over time, it would result in estimated yearly benefits 3 percent lower after 10 years, 6.2 percent lower after 20 years and 9.4 percent lower after 30 years. After 30 years, an annuity of $50,000, whether CSRS or FERS plus Social Security, will provide $122,476.39 less in benefits.

Chained CPI is Not a Better Measure of Inflation

Proponents of the chained CPI claim it provides a better measure of inflation by taking into account how consumers substitute one item when the price of another item increases; for example, by switching from steak to chicken when the price of steak rises. Accounting for this type of substitution, however, fails to measure lower standards of living that result from substituting a less desirable alternative. Seniors, in particular, as a result of living on a fixed income, often find such substitution impracticable, as they are already purchasing lower priced goods. Second, neither the chained CPI nor the CPI-W accurately reflects changes in consumer prices experienced by the seniors who rely on the measures to adjust their incomes appropriately. Notably, while health care accounts for about 12 percent of spending for those 62 or older, it accounts for only 5 percent of spending for the general population. Meanwhile, health care costs are rising faster than other goods – last year, health care inflation was 3.7 percent while the CPI-W indicated the average price of consumer goods increased 1.7 percent. Finally, using the chained CPI to adjust tax brackets would increase taxes on lower and middle-income workers, making it harder to save more for retirement. According to a Joint Committee on Taxation report, by 2021, the tax liability for those with incomes between $10,000 and $20,000 would increase by 14.5 percent, and by 3.5 percent for incomes between $20,000 and $30,000, while those with incomes of $1 million and above would see an increase of only 0.1 percent. The chained CPI hits our nation's most vulnerable twice.

http://www.narfe.org/heartbeat/ to send a letter to Congress opposing the chained CPI.