

Issues with the Chained CPI

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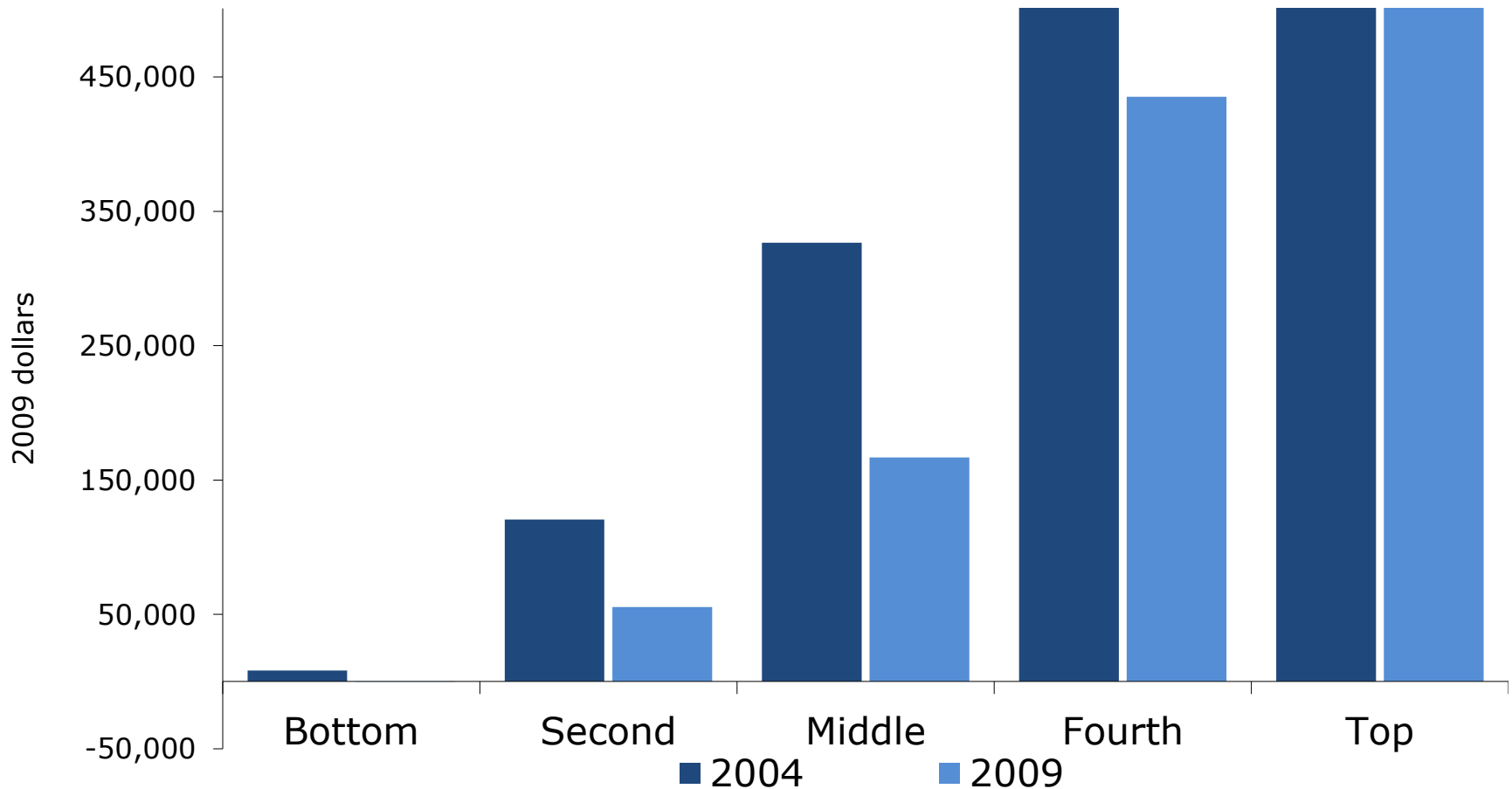
Center for Economic and Policy Research

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- 1) Current Seniors are Not Affluent
- 2) Near Retirees are Not Likely to Better Off
- 3) Evidence on CPI and Cost of Living of the Seniors is Mixed
- 4) Applying the Chained Index to COLA Would be a Big Hit

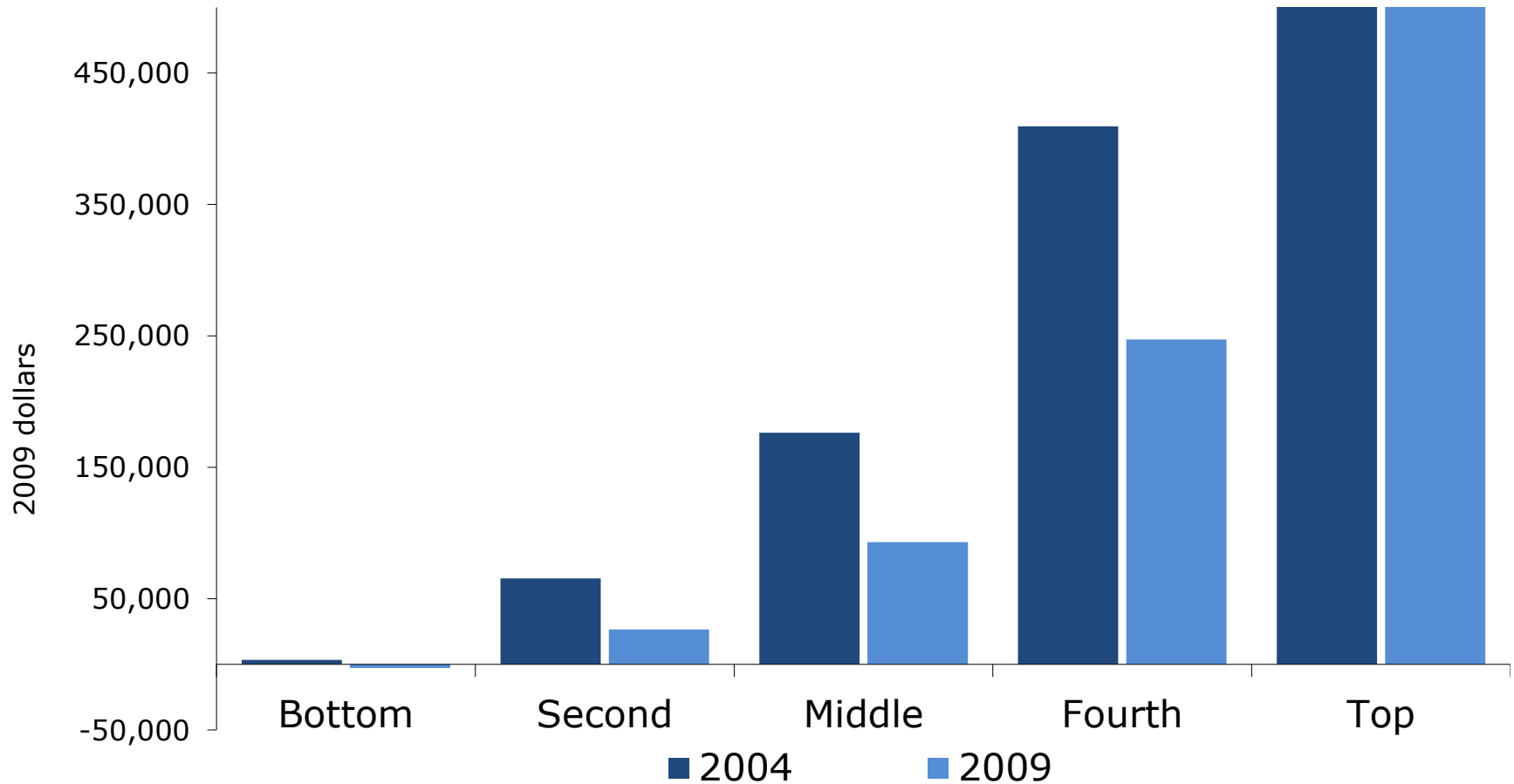
- 1) Social Security provides more than 90 percent of the income for 40 percent of beneficiaries;
- 2) Social Security provides more than half the income for 70 percent of beneficiaries
- 3) Median person income for people over age 65 was \$20,000 in 2011.
- 4) Median person income for people over age 75 was \$17,600 in 2011

Net Worth of Households Aged 55-64, in 2004 and 2009, by Income Quintile



Source: Author's analysis of 2007 Federal Reserve Board Survey of Consumer Finance

Net Worth of Households Aged 45-54 in 2004 and 2009, by Income Quintile

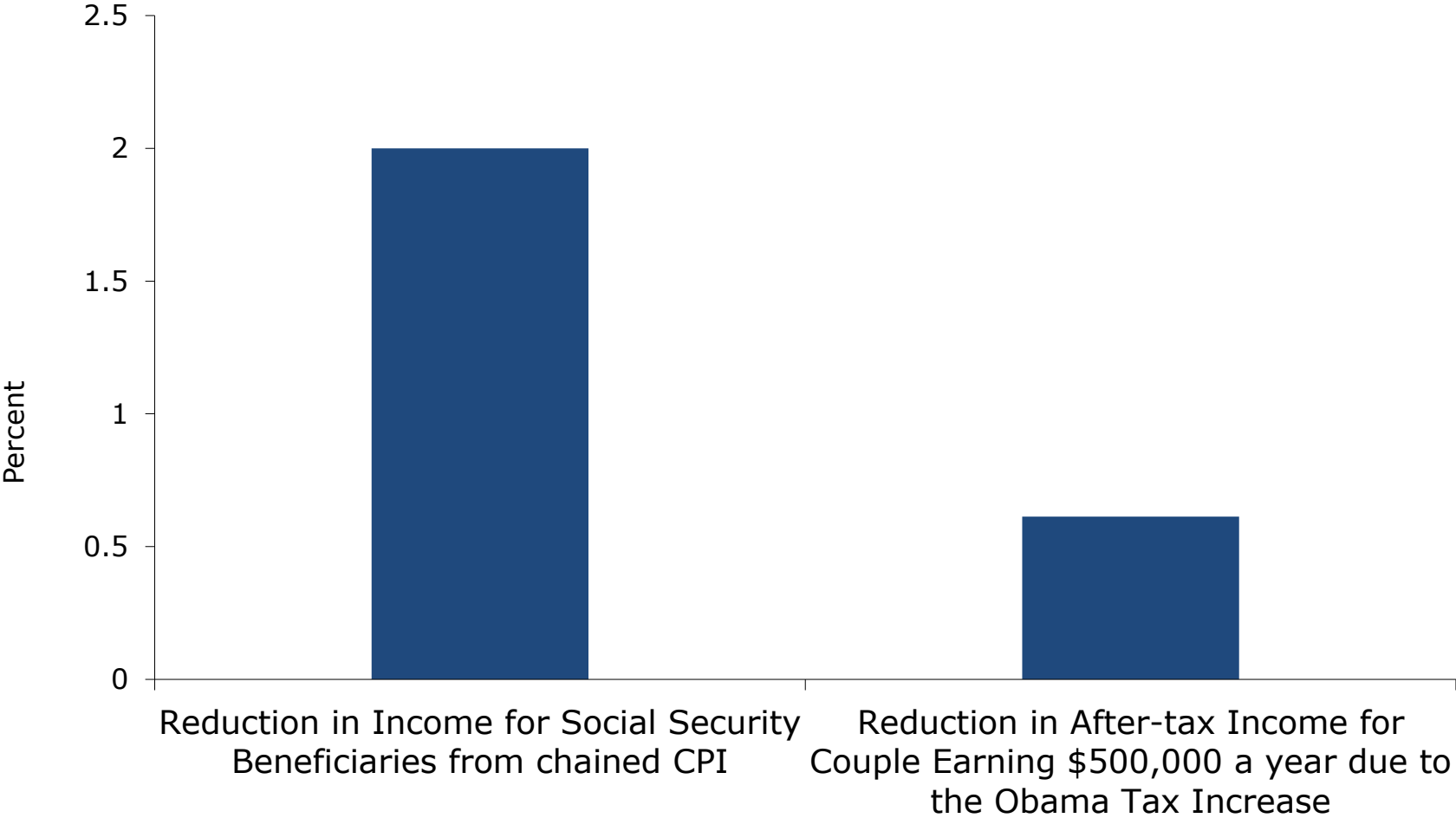


Source: Author's analysis of 2007 Federal Reserve Board Survey of Consumer Finance

Does the Current CPI Overstate the Rate of Inflation Experienced by the Elderly?

- Elderly index shows higher rate of inflation due to health care and housing
- BLS research shows impact of substitution is smaller among recipients of TANF, SSI and other benefits
- Assumptions on lower level substitution may already overstate substitution for seniors

Impact on Income: Chained CPI and Obama Tax Increases



Source: Author's calculations

Conclusion

- 1) Most seniors are far from affluent
- 2) The way to determine the cost of living for seniors is to construct a full elderly CPI
- 3) The hit from the chained CPI to seniors is larger than the Obama tax increases were to the wealthy.