Moment of Truth
PROJECT

The era of deficit denial is over.

August 13, 2013

Chairman Sam Johnson
Subcommittee on Social Security
House Committee on Ways and Means
1102 Longworth House Office Building
Washington D.C. 20515

Dear Chairman Johnson,

Thank you for the fine work your subcommittee is undertaking to lay out bipartisan proposals for entitlement reform. We strongly believe in the importance of bringing long-term entitlement spending under control and doing so in a bipartisan fashion.

The recent discussion draft you presented on adopting the chained CPI for Social Security is a very important contribution to the debate. We were encouraged that your subcommittee recognizes the importance of measuring inflation accurately while providing benefit enhancements for the very elderly. Eliminating the unjustified increases in spending and reduced revenues from the current inaccurate measure of inflation should be a priority for any comprehensive deficit reduction plan. All major bipartisan fiscal plans would adopt the chained CPI – which experts agree is a more accurate measure of inflation -- in place of current CPI measures for all parts of the budget indexed to inflation, while providing targeted benefit enhancements to the very elderly and those in poverty.

Although the discussion draft released by the Social Security Subcommittee was limited to the Social Security program, we strongly believe that it is essential that any legislation considered by Congress switching to chained CPI should be applied government-wide on both the tax and spending side, with no exceptions, which was the approach recommended by the Fiscal Commission and other bipartisan proposals. Inflation measures should not be corrected selectively, but rather throughout our government.

While most of the discussion regarding chained CPI has focused on the impact it would have on Social Security, the impact of switching to chained CPI to index provisions in the entire federal budget where it would be spread much more broadly, with then only one-third of the savings from switching to the chained CPI over the next decade coming from Social Security. Another third of the savings would come from new revenue and the remaining third from other spending programs and interest savings.

While we do not support exempting any area of government from improvements to the way we measure inflation, we do recognize that past overpayments have provided important assistance to certain low-income and elderly individuals for whom the existing program does not provide sufficient protections. For this reason all proposals to switch to chained CPI have used a portion of the savings to provide some type of targeted enhancement for the very elderly.

All of the options in your discussion draft include a bump up for long-term Social Security beneficiaries. The bump up recommended by the Fiscal Commission would be a flat dollar amount based on the average benefit amount and therefore would provide proportionally greater assistance to beneficiaries with lower benefit levels.

Since the Fiscal Commission report was issued, additional suggestions have been put forward for benefit enhancements and low income protections beyond the twenty year bump up for Social Security beneficiaries in the Commission recommendations. In the plan we released earlier this year, *A Bipartisan Path Forward to Securing America's Future, we* recommended setting aside $60 billion of the $340 billion in gross savings generated by switching to chained CPI for specific policy enhancements that are targeted to low income populations. In particular, we suggested applying the twenty year bump up to beneficiaries of Supplemental Security Income (SSI) and to veteran's benefits, as well as indexing the SSI income disregard and asset limits and other targeted enhancements of income support programs.

We have several technical concerns where the legislative language in the Simpson-Bowles draft released by the subcommittee does not reflect the intent of the Fiscal Commission recommendations. We have attached a document detailing those concerns and clarifying the intent of the Fiscal Commission recommendations.

Switching to the chained CPI is surely the right technical, fiscal, economic, and retirement policy. We know the chained CPI is a more accurate and effective way to accomplish the policy goal of maintaining purchasing power in spending programs and serving to index various parts of the tax code to inflation. Switching to the chained CPI would produce budgetary savings which would increase gradually over time, which is precisely the approach to deficit reduction advocated by most economists, and it would eliminate approximately one-fifth of the long-term funding gap in the Social Security program. We have also attached a report released by The Moment of Truth Project, which we co-chair, outlining the substantive justification for government wide switching to chained CPI in greater detail.

Thank you again for your extraordinary hard work on this vitally important issue. Please let us know how else we can be helpful.

Sincerely and respectfully,

Erskine Bowles　　　　Alan Simpson

Co-Chairmen, National Commission on Fiscal Responsibility and Reform

Attachments: Technical Comments on Ways and Means Committee Discussion Draft
"Measuring Up: The Case for Chained CPI"

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Technical Comments on Ways and Means Committee Discussion Draft of Simpson-Bowles Fiscal Commission Proposals to Use the Chained Consumer Price Index (C-CPI) to Determine Social Security Cost-of-Living Adjustments and Provide Benefit Increases for Long-Time Social Security Beneficiaries

1. The draft assumes the benefit enhancement at old age would come from a recompilation of the primary insurance amount (PIA). However, modifying the PIA could have unintended consequences and interactions. The intent of the Fiscal Commission recommendations was to instead treat the bump-up as a supplemental payment on top of Social Security, and to not count this supplemental payment toward income calculations for eligibility to other government programs.

2. The draft assumes an immediate start to the benefit enhancement. The intent was to begin the "bump-up" in the same year we began other reductions and enhancements to the benefit formula – 2017.

3. The draft appears to allow an immediate full bump-up for those more than 5 years above the qualifying age. The intent was to treat all individuals with more than 20 years of Social Security eligibility as if they are at exactly 20 years. For example, a person who turned 90 in 2017 would receive 20 percent of the total enhancement in that year, 40 percent in 2018, 60 percent in 2019, 80 percent in 2020, and 100 percent by 2021. They would not receive the full 100 percent in 2017.

4. It appears the draft would allow the full bump-up, as part of the PIA, to be passed on to survivors. Our intent, however, was to determine supplemental enhancement for widow(er)s based on their own age relative to eligibility. In other words, a widow(er) of a retired beneficiary who was less than 20 years older than the EEA would receive no enhancement and a widow(er) 25 years from the EEA would receive the full enhancement.