

To: Board of Three Parks Independent Democrats
From: Steve Max & Daniele Gerard (TPID Social Security Committee)
Date: December 19, 2012
Re: Social Security COLA Cuts

Behind Obama's Social Security Cost of Living Benefit Cut

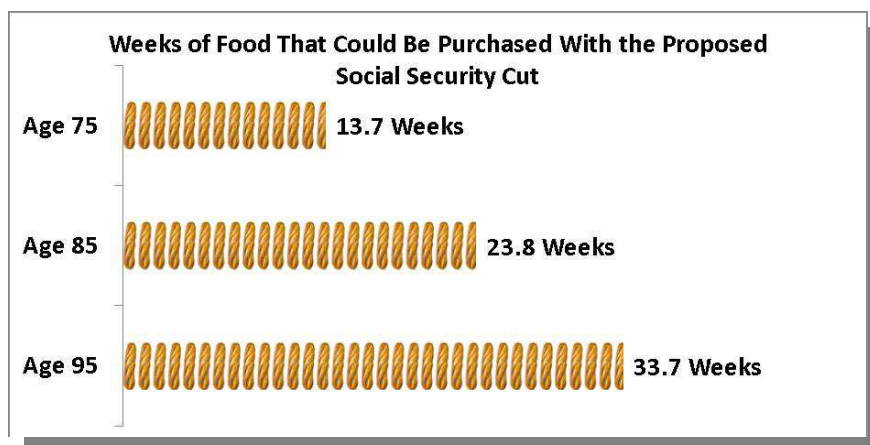
You have to be a lawyer to understand the President. Today the White House web page says that, *"He believes that no current beneficiaries should see their basic benefits reduced and he will not accept an approach that slashes benefits for future generations."* It sounds good, but the key word here is "basic," because the cost of living increase isn't basic, it's an adjustment to the basic benefit. Very clever, Mr. President, but we're not that dumb!

The President is offering the Republicans a change in the way the already inadequate Social Security Cost of Living Adjustment (COLA) is calculated. Essentially, it works this way:

Let's say that you are a senior, and that you buy yourself a steak every Saturday night. When the price of steak goes up, your Social Security benefit is supposed to rise at the end of the year so that you can keep on having your weekly steak. (You vegetarians will have to excuse me, but this example just doesn't work as well with turnips.) In reality, the COLA doesn't cover the full rise in the cost of the steak—your meal gets somewhat smaller each year, but at least you still have it.

Under the new Obama system, at the end of the year the government will say, "Yes, the cost of steak did rise, but seniors switched to cheaper chicken, so no COLA for you." The next year they say, "Yes, the cost of chicken did go up, but then the seniors switched to hot dogs, so no COLA for you." Next, the government says, "Yes, the cost of hot dogs did go up, but seniors are now are eating dog food and dog food isn't covered by the COLA."

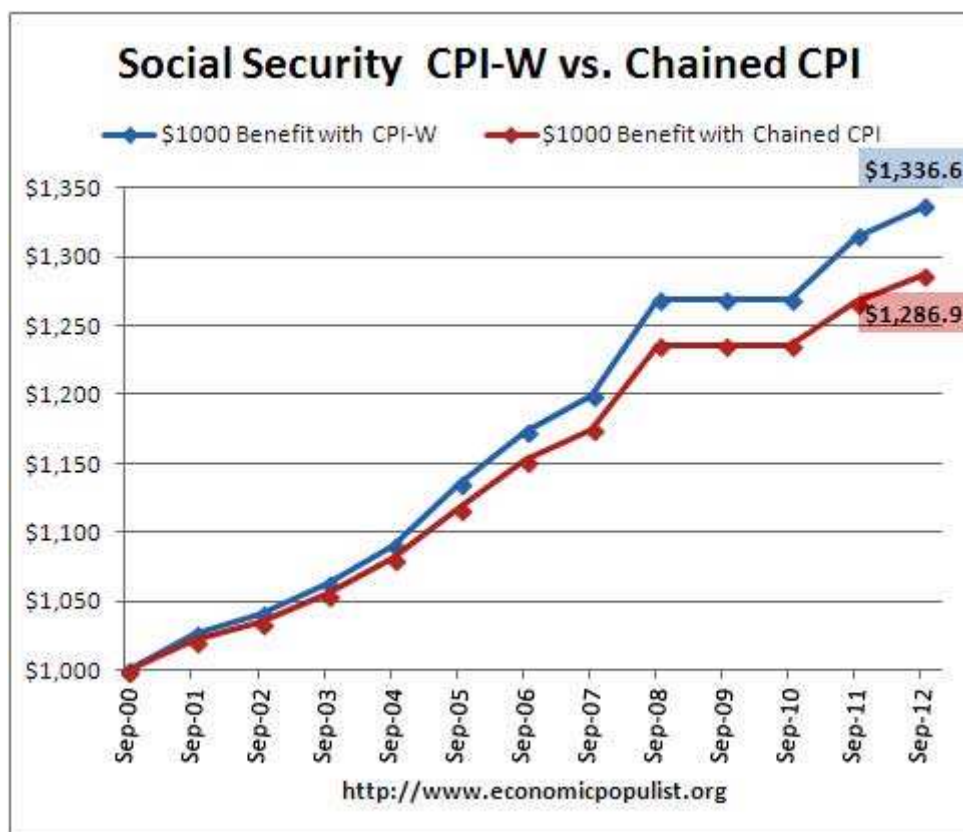
This chart shows the impact of the change on a senior who, after the new method has been implemented, retires at age 65. By age 75 that person will have lost the equivalent of 13.7 weeks of food money (everything, not just steak).



Source: USDA, "Official USDA Plans: Cost of Food at Home at Four Levels, U.S. Average, September 2012," October 2012. Food costs estimated at \$47.85/week, an average of costs for women and men age 71+ on the low-

cost plan. Benefit reductions from Chief Actuary of Social Security Administration, September 2012. Note: These calculations assume the chained CPI has been in effect for 3 years, which, as of this year, would be in 2015.*

The chart below shows the difference in benefits between the current method of calculating the COLA and the new Obama method. (If you can't see this in color, the line closest to the top is the current method, and the line below it is the Obama method.) The chart shows that for a person who retired in the year 2000 with a base benefit of \$1,000 per month, the COLA under the present method brings the benefit up to \$1,336.60 a month. Under the Obama method, it would be \$1,286.90 a month—a difference of \$49.70 a month[†]. Now, to some people, \$49.70 may not sound like much, but consider that for a third of seniors, Social Security is 90% of their income, and for a quarter of all seniors, Social Security is their only income. Taking almost fifty bucks a month out of such a low income is a lot of meals seniors can't afford. It is a miserable thing to do, especially when there is no reason whatsoever to do it.



The President tells us that this is all necessary to reduce the deficit. Is that true? Progressives often say that Social Security has nothing directly to do with the deficit. That is true, but indirectly there is a connection.

The Obama Social Security payroll tax cut has to be reimbursed to the Social Security Trust Fund from general revenue in the relatively small amounts of \$45 billion in 2011 and a projected \$53 billion in 2012.* This is likely to increase if the payroll tax cut is not allowed to

* <http://www.strengthensocialsecurity.org/>

† <http://www.economicpopulist.org/content/chained-cpi-will-reduce-your-social-security-benefits>

sunset this year. (By way of comparison, the cost of the federal extended unemployment benefits for 2013 is expected to be around \$30 billion.[‡])

There is, however, a much larger problem looming. The Social Security Trust Fund was set up to accumulate a large surplus for the retirement of the Baby Boomers. The surplus, which is required by law to be invested in U.S. Treasury bonds, will reach \$3.06 trillion (yes, trillion) by 2021. After that year, Social Security will need the money back and the Treasury will have to start paying off the bonds. The whole amount will be repaid by around 2033.[§] (In comparison, the combined cumulative cost of the Iraq and Afghan wars since 2001 is now around \$1.4 trillion^{**}, so this bond repayment will really be a big hit.) If the cap^{††} on the Social Security Payroll Tax were to be lifted on the portion of a person's income above \$250,000, the system would remain solvent and the repayment of the bonds delayed or extended over a longer period.

The odd thing about the whole situation is that the projected savings from Obama's proposed cut in the Cost of Living Adjustment, while huge for senior citizens, are so small in the overall deficit picture that they are totally irrelevant. The projected saving is only around \$122 billion spread over ten years, or \$12.2 billion a year. So what is really going on here?

Cutting benefits, it would appear, is not a response to the current phony "fiscal cliff" crisis; it is something Obama has wanted to do all along, and something he has offered Republicans in past budget and debt ceilings discussions. We were only saved from it by Republican obstinacy and refusal to cooperate on any level. As a Senator and as a 2008 candidate, Obama had strongly supported raising the payroll tax cap so that the rich would pay more. Immediately after getting elected in 2008, however, Obama began moving toward benefit cuts.

The January 7, 2009 *Washington Post* reported that "President-elect Barack Obama said Wednesday that overhauling Social Security and Medicare would be 'a central part' of his administration's efforts to contain federal spending, signaling for the first time that he would wade into the thorny politics of entitlement programs."

A month later, the February 22, 2009 *New York Times* announced that "President Obama is eager to seek a bipartisan solution to ensure the long-term solvency of Social Security, people who have spoken with him say, but he is running into opposition from his party's left and from Democratic Congressional leaders who contend that his political capital would be better spent on health care and other priorities. Mr. Obama considered announcing the formation of a Social Security task force at a White House 'fiscal responsibility summit' that he will convene on Monday. But several Democrats said that idea had been shelved, partly because of objections from House and Senate leaders."

Obama actually did convene a task force to make proposals about the deficit, the Bowles-Simpson Commission; he told it to include recommendations for Social Security. Simpson, of course, is the former Republican Senator Alan Simpson, who was then working as a professional Social Security hater. He once said, "We've reached a point now where it's like a milk cow with 310 million tits." The Co-Chairs of this commission proposed changing the COLA among many other things, but they could not muster enough votes among the commission members, all picked by Obama, to endorse their recommendations. The President continues to press for some commission findings.

[‡] <http://money.cnn.com/2012/11/29/news/economy/unemployment-benefits-cost/index.html>

[§] 2012 S.S. Trustees Annual Report, Pgs 2-3.

^{**} <http://www.infoplease.com/ipa/A0933935.html>

^{††} The 2013 cap starts at \$113,700

We can only speculate on what is in the President's mind at this point. Does he actually think that cutting the COLA is good for Social Security or will reduce the deficit? Is he hoping to win a substantial increase in taxes by handing Speaker Boehner the COLA cut as a trophy to bring back to the demented base of the Republican Party? Is this an expression of Obama's uncontrollable addiction to bipartisanship and compromise? Is it part of an inscrutable complex strategy to win back the House that will eventually lead to the restoration of the present COLA? All we can say is that any of the above is too dangerous. This benefit cut must not happen. Click this link and tell President Obama: "No to COLA cuts!"

http://action.ourfuture.org/p/dia/action3/common/public/?action_KEY=182