

How "chained CPI" can reduce
your Social Security benefits.

The Longer You Live
The More You Lose



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Your Social Security

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The Longer You Live The More You Lose

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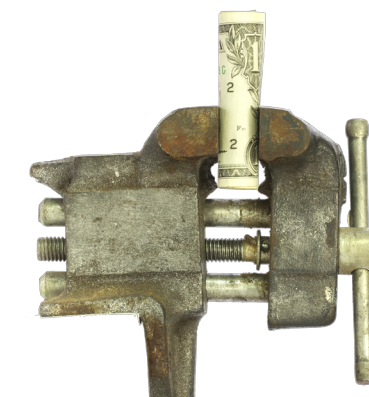
If you're confused by the term "chained CPI (Consumer Price Index)", you're not alone. Other than economists, few people had even heard of the term until it came up during the current debate about the federal budget deficit.

To understand the chained CPI, you first need to know what the conventional CPI is. The consumer price index is a way to estimate the rate of inflation and how consumer prices are increasing (or less commonly, decreasing). To determine the CPI, economists take a list

of consumer goods including gasoline, housing, clothing and groceries and track their cost over time to measure the changes in costs. The federal government uses the CPI to set annual cost of living adjustments (COLA) for those receiving Social Security payments.

Critics of basing COLA on the CPI say it does not account for changes in demand when prices rise and fall. If, for example, the price of beef goes up, many consumers will switch to less-expensive chicken. Substitution lessens the impact of inflation on consumers. Chained CPI attempts to factor substitution into the rate of inflation. Because chained CPI results in an apparent lower rate of inflation, COLA under chained CPI will be lower. Changing accounting procedures from CPI to chained CPI could save the government about \$300 billion over 10 years, according to some estimates.

This could be good news for a federal government grappling with deficit spending, but bad news for older and disabled Americans and their families who receive Social Security benefits. Even small reductions in COLA add up to big reductions over time.



The method the government uses to measure inflation can squeeze your benefits.

The American Association for Retired Persons (AARP) gives this example: "92-year-old beneficiaries who were on the program for 30 years would see an 8.4% cut in benefits (the equivalent of losing a full month of benefits every year.)" Disabled workers whose Social Security benefits may start at a younger age could face even larger benefit reductions over their lifetimes.

Here's the bottom line: chained CPI is a Social Security benefit cut. The younger you are, the bigger the cut.

"COLA under chained CPI will be lower."

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Test Your Social Security Knowledge

Take our True/False Quiz .
(Hey, you have a 50% chance of being right!)



True or False?

1. There are now 200 medical conditions on the Social Security Administration's "Compassionate Allowances List," which provides for fast-track disability consideration for people with these medical conditions.
2. If you are divorced, you cannot collect retirement benefits based on your ex-spouse's earnings record.
3. Drug and alcohol addictions are considered disabilities by the Social Security Administration.
4. An annual cost-of-living adjustment (COLA) is guaranteed.
5. If the Social Security Trust Fund is exhausted (which could happen in 2033 if no changes are made) benefits will drop to zero.



Can you collect Social Security retirement benefits based on your ex's earnings record?

1. **True.** The objective of the Social Security's Compassionate Allowances Program is to ensure that Americans with certain severe medical conditions receive their benefit decisions within days instead of months or years.
2. **False.** At age 62 or older you can collect retirement benefits based on your ex-spouse's work history. But you must meet these conditions: 1) you were married at least ten years, 2) you have been divorced at least two years, and 3) you have not remarried (or if you did, that subsequent marriage ended in annulment, divorce, or death).
3. **False.** Alcohol and drug addictions are very serious problems, but they are not considered as disabilities for the purpose of Social Security disability benefits.
4. **False.** And in fact, in 2009 and 2010 Social Security benefit payments were not increased for Cost of Living Adjustments.
5. **False.** According to Social Security estimates, benefits would drop by around 25% because payroll tax revenues could fund benefits at about 75% of promised levels.

"...the Social Security's Compassionate Allowances Program...ensure(s) that Americans with certain severe medical conditions receive their benefit decisions within days..."



What Every Woman Should Know About Social Security

Women, as a group, receive smaller annual Social Security retirement payments than men.

Although the administration of Social Security benefits is gender neutral, other factors can work against women to reduce their retirement benefits. On average, women in the workforce earn twenty percent less than men. Many women step out of the workforce to raise a family or to provide unpaid care for family members. These factors lower lifetime earnings resulting in smaller annual retirement payments.

"In 2009, the average annual Social Security income of a retired man was \$15,620, while the average yearly income of a retired woman was \$12,155," according to a white paper sponsored by the National Committee to Preserve Social Security & Medicare Foundation, the Institute for Women's Policy Research, and the National Organization for Women Foundation.

Several Social Security reform proposals are under consideration which could benefit women. An enhanced minimum benefit would help all low income workers (both men and women) who may have long careers but low lifetime earnings. Another proposal would treat as work time spent out of the workforce performing unpaid care for family members.

Two other proposals target married and divorced women: tying survivor benefits to a couple's combined earnings and reducing the number of years of marriage required for divorced spouses to be eligible for spousal benefits.

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