

STRENGTHEN SOCIAL SECURITY

...don't cut it.

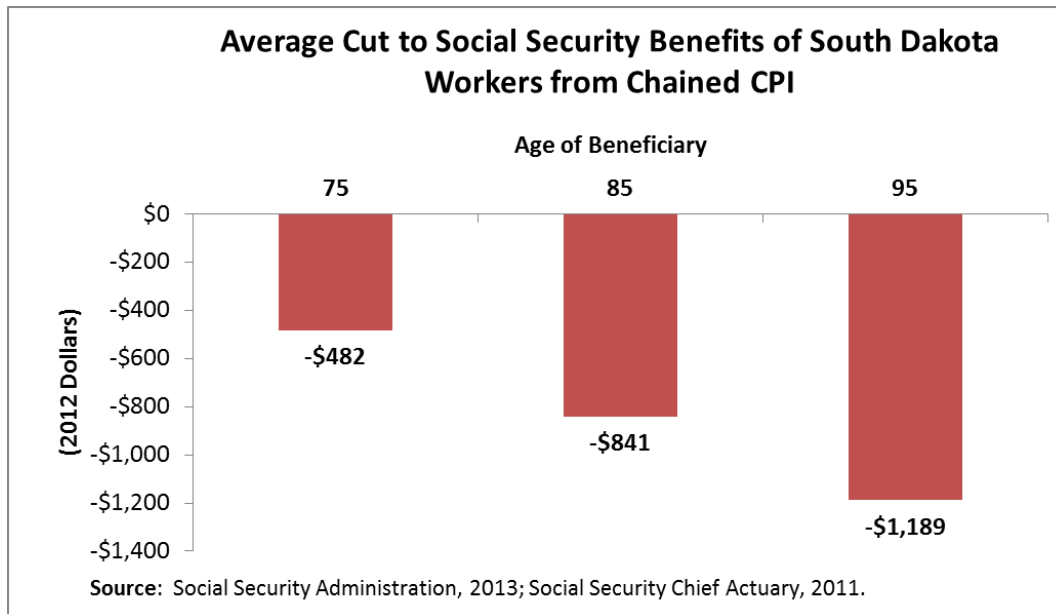
Chained CPI Will Harm Veterans and Social Security Beneficiaries in South Dakota

As we celebrate the 78th anniversary of our Social Security system, some politicians in Washington are proposing to cut benefits for veterans and Social Security beneficiaries in South Dakota by changing the formula used to calculate cost-of-living adjustments (COLAs). The stingier formula, known as the chained CPI, would significantly cut the benefits of **all** current and future Social Security beneficiaries, including retired and disabled veterans. Veterans would be hurt most of all, given that other benefits veterans receive – in addition to their Social Security benefits – would also be cut by the chained CPI.

Effect of the COLA Cut on Social Security Benefits in South Dakota

If Congress decides to cut Social Security benefits by means of the chained CPI, South Dakotans' benefits would be cut increasingly over time. The average earner in South Dakota retiring at age 65 would get a \$482 annual cut at age 75, a \$841 cut at age 85, and a \$1,189 cut at age 95.¹

Cumulatively, the average South Dakota worker's benefits would be cut by \$3,395 by age 75, \$10,197 by age 85, and \$20,527 by age 95.² The proposed COLA cuts would have their biggest impact when benefits are needed the most, in very old age or when someone has been receiving disability benefits for many years.



Effect of the COLA Cut on Veterans in South Dakota

Any cut to Social Security heavily impacts our nation's veterans: four in ten rely on Social Security, and 35 percent of adult Social Security beneficiaries are veterans or their family members.³ Cutting Social Security harms South Dakota's veterans just as it does other retired or disabled workers in South Dakota.⁴

There are 69,830 veterans in South Dakota.⁵ In addition to receiving Social Security benefits,⁶ most veteran families also receive benefits from the Department of Veterans Affairs (VA). Many of these benefits are adjusted annually to keep pace with the cost of living. These include Veterans Disability Compensation benefits, Veterans Pension benefits, Military Retirement Pay,⁷ the Subsistence Allowance for veterans participating in vocational rehabilitation and employment services programs, survivor annuities for deceased veterans' family members (Dependency and Indemnity Compensation and Survivors Pension Benefits),⁸ educational allowances for veterans' surviving family members,⁹ and Veterans' Monetary Burial Benefits (a plot allowance). All of these veterans benefits would be cut if Congress were to adopt the chained CPI.

If we consider only the three largest of these benefits,

- 13,160 South Dakotans received Veterans Disability Compensation,
- 7,815 received Military Retirement Pay, and
- 1,417 received Veterans Pension benefits in 2011.

The total value of these three benefits alone for veterans in South Dakota was \$331.5 million in 2011. **The chained CPI would cut these benefits by about \$9.5 million over the next 10 years** – money taken out of the household budgets of those who have served our country, and money also taken out of South Dakota's economy just as it is trying to recover from years of economic stagnation.¹⁰

Social Security and Veterans' Benefits Should Have the Most Accurate COLA Possible

Today's COLA under-measures the inflation experienced by the elderly and those with disabilities because they have higher health care expenditures than the general population and those costs have been rising rapidly. A better measure than current law – and certainly more accurate than the chained-CPI – is the so-called CPI-E.

Social Security Should be Expanded, not Cut

The CPI-E does not expand benefits; it would just keep benefits from eroding over time. Congress should go further and actually expand benefits. Senator Harkin (D-IA) and Senator Begich (D-AK), as well as others, are proposing bills to expand Social Security, which is a common-sense approach to the retirement income crisis today's and tomorrow's seniors are facing in South Dakota and around the country.

¹ These calculations assume the chained CPI has been in effect for 3 years. Percent benefit reduction under chained CPI from SSA Chief Actuary, “Effects on Social Security Financial Status and on Benefit Levels of Two Potential Modifications to the Automatic Annual Cost of Living Adjustment (COLA) Requested by Representative Xavier Becerra,” June 21, 2011, http://ssa.gov/oact/solvency/XBecerra_20110621.pdf Average state benefit under current law calculated by dividing total annual benefits in state by number of beneficiaries. Total state benefits: SSA, *Annual Statistical Supplement, 2013*, “Table 5.J1—Estimated total annual benefits paid, by state or other area and program, 2012 (in millions of dollars),” June 28, 2013.

<http://www.ssa.gov/policy/docs/statcomps/supplement/2013/5j.html#table5.j1>.

Total state beneficiaries: SSA, *Annual Statistical Supplement, 2013*, “Table 5.J2—Number, by state or other area, program, and type of benefit, December 2012,” June 28, 2013.

<http://www.ssa.gov/policy/docs/statcomps/supplement/2013/5j.html#table5.j2>

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³ Anya Olsen and Samantha O’Leary, “Military Veterans and Social Security: 2010 Update,” in *Social Security Bulletin*, Vol. 71, No. 2. 2011, Social Security Administration, Office of Retirement and Disability Policy, pp. 1-2.

<http://www.ssa.gov/policy/docs/ssb/v71n2/v71n2p1.pdf>

⁴ The average benefit nationwide for a veteran receiving Social Security was about \$15,500 in 2010. Anya Olsen and Samantha O’Leary, *Ibid.*, p. 5. Calculated from average monthly benefit of \$1,289 for veterans of all ages. Benefit is in constant 2009 dollars, the most current data available. A veteran who retires at age 65 would see their benefits cut by \$577 at age 75, \$1,006 at age 85, and \$1,422 – 9.2 percent – by age 95. Analysis of data from the Social Security Administration Chief Actuary, “Effects on Social Security Financial Status and on Benefit Levels of Two Potential Modifications to the Automatic Annual Cost of Living Adjustment (COLA) Requested by Representative Xavier Becerra,” June 21, 2011. http://ssa.gov/oact/solvency/XBecerra_20110621.pdf

⁵ U.S. Census Bureau, *2009-2011 American Community Survey 3-Year Estimates*, “Selected Social Characteristics in the United States,” 2012. <http://factfinder2.census.gov/>

⁶ Many military members and their families receive monthly benefits indexed to the CPI from Social Security. As full participants in the Social Security system, military personnel are in general entitled to the same benefits and are subject to the same eligibility criteria and rules as other employees. For more see DOD Office of the Actuary, “Statistical Report on the Military Retirement System. Fiscal Year 2011,” May 2012, p. 13.

<http://actuary.defense.gov/Portals/15/Documents/statbook11.pdf>

⁷ For information on the interaction and offsets between military retired pay and VA disability payments, and on the relationship between military members and Social Security, see DOD Office of the Actuary, “Statistical Report on the Military Retirement System. Fiscal Year 2011,” May 2012, pp. 11-13.

<http://actuary.defense.gov/Portals/15/Documents/statbook11.pdf>

⁸ Dependency and Indemnity Compensation (DIC) is an annuity paid to spouses, children, and parents of service members and veterans who are deceased or totally and permanently disabled by a service-connected disability. The basic monthly rate of DIC, effective December 1, 2012, is \$1,215 for an eligible surviving spouse. The rate is increased for each dependent child, and also if the surviving spouse is housebound or in need of aid and attendance. In 2011, 355,474 surviving family members of veterans received DIC, with benefits averaging \$14,529. Nationwide, \$5.2 billion were spent on DIC benefits in 2011. Survivors Pension is a needs-based benefit paid to surviving spouses and children of wartime veterans, who meet certain age, disability, and marriage requirements.

Nationwide in 2011, 201,955 surviving family members received Survivors Pension, for benefits totaling \$1.2 billion. <http://benefits.va.gov/BENEFITS/factsheets/survivors/dic.pdf>

⁹ The Educational Assistance Allowance is provided under the Survivors' and Dependents' Educational Assistance Program.

¹⁰ Projected cuts are based on the assumption of constant levels of total benefits paid. If the amount of benefits paid increases or decreases, the size of these cuts will be correspondingly larger or smaller.