

The Chained CPI: Increasing Economic Inequality for African Americans



Center for
Global Policy
Solutions



African Americans are among the most vulnerable when it comes to economic security. As of 2011, over half of the African-American senior population was financially insecure.¹ The persistent income and wealth inequality seen among African Americans comes from years of disproportionately lower levels of earnings, employment, educational attainment, and ownership of family assets such as homes, stocks/bonds, savings accounts, and businesses.² As a result, African Americans have had significantly fewer opportunities to build assets over time and often lack the savings to ensure financial security throughout their post-working years.

For this reason, African Americans are especially sensitive to policy proposals that would further erode their economic security. The chained CPI, a proposal offered by President Obama as a part of his 2014 budget, is one such proposal. This fact sheet highlights research findings on African American economic insecurity and explains how the chained CPI has a disproportionately negative effect on African Americans.

Facts At A Glance

- The median wealth of white households is twenty times that of African-American households.
- Because more African Americans rely on their benefits for most or all of their income, they will experience deeper economic pain as a result of the chained CPI.
- The proposed chained CPI exemptions do not cover low-income African Americans receiving benefits through programs that are not means tested, like Social Security, civil service and military retirement, and veterans' benefits.

“The racial wealth gap means that African Americans are less likely than whites to possess other resources to offset reductions to their COLAs.”

What is the Chained CPI?

The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is a measure of inflation used to determine the annual cost of living adjustment (COLA) for federally issued benefits such as payments received by Social Security, veterans, Federal Employees Retirement System, and Supplemental Security Income beneficiaries. The COLA is designed to provide an annual inflation-adjusted boost to these payments so that recipients can afford the rising cost of food, shelter, health care and other necessities over time.

The Obama Administration proposes to substitute the regular CPI-W for the chained Consumer Price Index for all Urban Workers (CPI-U or chained CPI), a measure of inflation that takes into account substitutions of less expensive goods when prices for other alternatives go up.³ This substitution would reduce the amount by which the COLA is increased annually—a reduction of about \$3 for every \$1,000 in benefits—and its effects would be compounded over time.⁴ For example, the average Social Security retiree would see his or her benefits cut by \$500 a year after 10 years. After 20 years, the average benefit would be cut by about \$1,000 a year.⁵

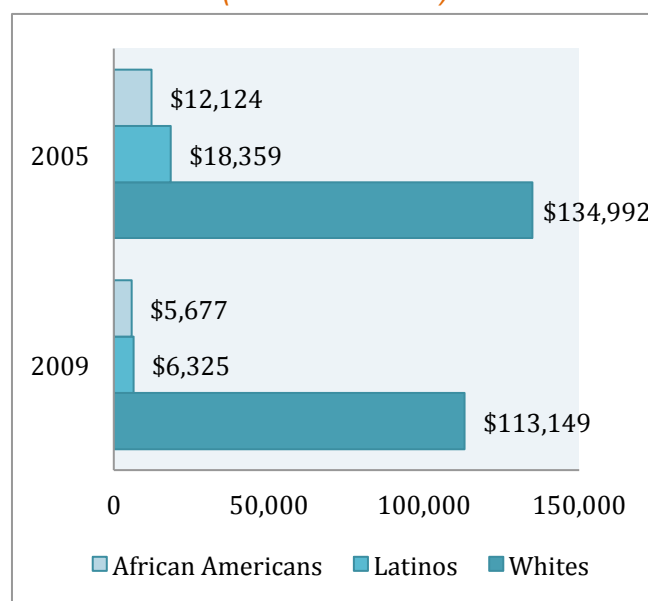
The chained CPI significantly reduces the purchasing power of those who rely on benefits issued by the federal government, and especially disadvantages retirees and the long-term disabled because it fails to take into account the higher costs they shoulder as a result of their increased need for health care services and related products.⁶

In recognition of the economic hardship that will be caused by its proposal, the Obama Administration has proposed special exemptions for retirees over the age of 76, those such as disability and survivor beneficiaries who receive benefits for longer periods of time, certain categories of veterans, and individuals receiving benefits through means-tested programs for the very low income.⁷ These “exemptions” will not entirely hold these populations harmless from reductions to their benefits.⁸

The Chained CPI Harms African Americans

COLA decreases resulting from the chained CPI will disproportionately harm African Americans who have dramatically fewer sources of wealth to draw upon compared to whites. The median wealth of white households is twenty times that of African American households.⁹

Median Net Worth of Households by Race and Ethnicity, 2005 and 2009
(in 2009 dollars)



Source: Pew Research Center tabulations of Survey of Income and Program Participation data.

This racial wealth gap means that African Americans are less likely than whites to possess other resources to offset reductions to their COLAs.

As a result of wealth disparities, African Americans will be negatively affected by implementation of the chained CPI regardless of the non-means tested federal program from which they receive their benefits.

Social Security

Retirees

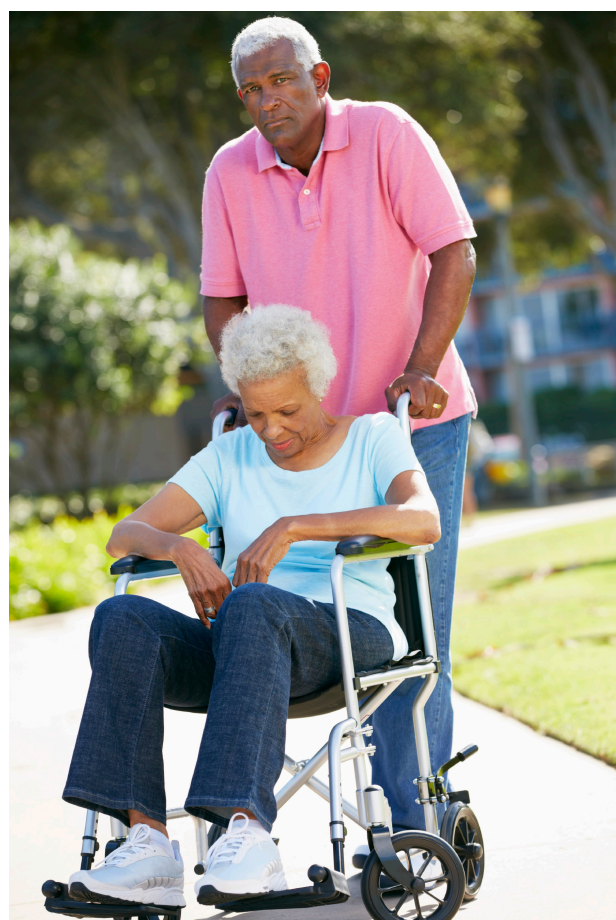
Older African-American adults have fewer saved assets to support them in retirement and are therefore heavily dependent on their Social Security checks.

- Forty-seven percent of African-American seniors rely on Social Security for more than 90 percent of their income in retirement, compared to 33 percent of their white counterparts.¹⁰
- Fifty four percent of unmarried African-American beneficiaries depend on Social Security for more than 90 percent of their income.¹¹
- Two out of five African-American retiree households ages 65 or older depend on Social Security as their sole source of income.¹²
- In 2010, 18 percent of African-American adults ages 65 and older had household income below the federal poverty level, compared with 7 percent of white non-Hispanic adults ages 65 and older.¹³
- African Americans are more likely to be burdened by health disparities that increase their out-of-pocket health costs as they age.¹⁴
- The average life expectancy for African-American men after the age of 65 is two years shorter than white men, making them less likely to be eligible for the proposed exemption for the very old.¹⁵

Survivors and the Disabled

Almost half of all African-American Social Security recipients are eligible for the program because of the disability or death of a worker.¹⁶ These economically vulnerable households, many of whom contain children, will not be protected from the benefit cuts resulting from the chained CPI.

- In 2011, 19 percent of disabled workers receiving benefits were African American although they were only 10 percent of the U.S. workforce.¹⁷



- One in five children receiving disability benefits is African American – they represent 21 percent of disability beneficiaries but only 15 percent of all U.S. children.¹⁸
- African-American children are twice as likely to receive Social Security survivor benefits than white children due to higher death rates among African Americans.¹⁹

Because African Americans have a heavier reliance on Social Security's retirement, disability, and survivor benefits, they will experience a bigger reduction in their income as a result of the chained CPI.²⁰ Older individuals and those who receive benefits for a long time are especially vulnerable.

AARP estimates that those who rely entirely on Social Security will experience an 8.4 percent cut in total income after 30 years using the chained CPI measure whereas those who rely on Social Security for only one-quarter of their total income will experience a 2.1 percent ($= 8.4\% * \frac{1}{4}$) cut in total income after 30 years.²¹

Other Federal Programs

The Obama Administration anticipates that adopting the chained CPI will contribute a significant sum to deficit reduction over ten years. While official estimates of the Administration's proposal have yet to be released, a Congressional Budget Office analysis of a generic chained CPI proposal projected savings of \$340 billion with about half of this amount coming from Social Security COLA reductions and the rest from COLA reductions to other government programs such as civil service and military retirement benefits, Medicare, and higher education.²² All of these programs are important to African Americans.

Conclusion

As a group that is heavily represented among those receiving benefits issued by the federal government, African Americans have disproportionate exposure to the spending cuts that will result from the implementation of the chained CPI.

Their vulnerability is compounded by their lack of wealth, which drives African Americans' heavier reliance on these benefits for the majority or entirety of their income.

As a result, their well-being will be diminished even as African Americans disproportionately shoulder the burden of helping the federal government reduce deficits that they were not responsible for creating.

ACKNOWLEDGEMENTS

Dr. Maya Rockeymoore authored this policy brief with research assistance from Ms. Lindsey Reichlin.

Suggested citation:

Rockeymoore, M. (2013). *The Chained CPI: Increasing Economic Inequality for African Americans*. Washington, DC: Center for Global Policy Solutions.

End Notes

- 1 Meschede, T., Sullivan, L., and Shapiro, T. (2011). *The Crisis of Economic Insecurity for African-American and Latino Seniors*. New York, NY: Demos.org and Institute on Assets & Social Policy.
2. Rockey Moore, M. (2011). *Social Security at 75: Building Economic Security, Narrowing the Racial Wealth Divide*. Washington, DC: Insight Center for Community Economic Development.
3. Koenig, G., and Waid, M. (2012). *Proposed Changes to Social Security's Cost-of-Living Adjustment: What Would They Mean for Beneficiaries?* Washington, DC: AARP.
4. Keister, K. (2013). *What's the Chained CPI?* Washington, D.C.: AARP. Retrieved on April 22, 2013, from <http://www.aarp.org/politics-society/advocacy/info-02-2013/the-chained-consumer-price-index-explained.html>
5. Social Security Works. (2013). *Social Security COLA Cut Will Chain Many Seniors and People with Disabilities*. Washington, DC. Retrieved on April 25, 2013, from: <http://strengthensocialsecurity.org/colacut>
6. Barber, A. and Woo, N. (2012). *The Chained CPI: A Painful Cut in Social Security Benefits and a Stealth Tax Hike*. Washington, DC: Center for Economic and Policy Research.
7. Office of Management and Budget. (2013). *Chained CPI Protections*. Washington, DC. Retrieved on April 29, 2013, from <http://www.whitehouse.gov/omb/budget/factsheet/chained-cpi-protections>
8. Fremstad, S. (2013). *Even with Exemptions, Chained CPI Proposal Will End Up Hurting Low Income People*. Washington, DC: Center for Economic and Policy Research.
9. Kochhar, R., Fry, R., and Taylor, P. (2011). *Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics*. Washington, DC: Pew Research Center.
10. Social Security Administration. *Social Security is Important to African Americans*. Baltimore, MD. Retrieved on April 25, 2013, from <http://www.ssa.gov/pressoffice/factsheets/africanamer-alt.pdf>
11. Leigh, W. A., (2011). *African Americans and Social Security : A Primer*. Washington, DC: Joint Center for Political and Economic Studies.
12. Ibid.
13. Komisar, H., Cubanski, J., and Neuman, T. (2012). *Key Issues in Understanding the Economic and Health Security of Current and Future Generations of Seniors*. Washington, DC: Kaiser Family Foundation.
14. Ibid.
15. Centers for Disease Control, (2011). *Health, United States 2007, 2011, Table 22. Life expectancy at birth, at 65 years of age, and at 75 years of age, by race and sex: United States, selected years 1900-2007*.
16. Rockey Moore, M., and Lui, M. (2011). *Plan for a New Future: The Impact of Social Security Reform on People of Color*. Washington, DC: Commission to Modernize Social Security.
17. Social Security Administration. *Social Security is Important to African Americans*. Baltimore, MD. Retrieved on April 25, 2013, from <http://www.ssa.gov/pressoffice/factsheets/africanamer-alt.pdf>
18. Leigh, W. A., (2011). *African Americans and Social Security : A Primer*. Washington, DC: Joint Center for Political and Economic Studies.
19. Rockey Moore, M., and Lui, M. (2011). *Plan for a New Future: The Impact of Social Security Reform on People of Color*. Washington, DC: Commission to Modernize Social Security.
20. Koenig, G., and Waid, M. (2012). *Proposed Changes to Social Security's Cost-of-Living Adjustment: What Would They Mean for Beneficiaries?* Washington, DC: AARP.
21. Ibid.
22. Stern, E. (2013). *What Would Be the Effect on the Deficit of Using the Chained CPI to Index Benefit Programs and the Tax Code?* Washington, DC: Congressional Budget Office. Retrieved on April 26, 2013, from <http://www.cbo.gov/publication/44089>