CHAINED CPI

You are no doubt hearing the term "Chained CPI" these days in connection with the President's proposed budget and Congress reaching a grand bargain or budget deal. To better understand the difference in calculating our COLAs using the Consumer Price Index and in using the Chained CPI to calculate our COLAs the following explanation is offered.

The Consumer Price Index is a formula that looks at how the prices of stuff we need (food for example) change over time. It is used at the present time to make cost of living adjustments for programs such as Social Security, veterans, food stamps and our annuities.

The Chained CPI is a twist on the CPI. It measures living costs benefits differently because it assumes that when prices for one thing go up, people sometimes settle for cheaper substitutes (if beef prices go up, for example, they'll buy more chicken and less beef).

<u>Chained CPI is Not a Better Measure of Inflation</u>

Bottom Line: Cost of living adjustments would be lower with the chained CPI than with the plain old CPI. So depending on which formula is used, the amount of your annuity payment could change over time.

How much could payments change? Estimates show that under the chained CPI, the cost of living adjustment (COLA) would be about .3 percentage point below the plain old CPI. That works out to $3.00 less for every $1000, which does not sound like much - except that it keeps compounding overtime.

Look at it this way: The COLA for this year was 1.7 percent. If your monthly annuity check was $1250 last year, it increased to $1271.25 this year.

With the chained CPI, you would be getting $1267.50 or $3.75 less a month and $45 less per year. Again, that might not seem like a big reduction, but if the COLA is the same next year, the difference increases to $7.61 a month and $91.32 per year.

Now, you start to get the picture. The gap accelerates and begins looking like real money. If you are now 62 and retire this year, by age 92, you'll be losing a full month of income every year. What at that time of life can you substitute for health care if health care costs continue to skyrocket?

Compiled By:
Carolyn London
North Carolina Federation of Chapters