



**CONSORTIUM FOR CITIZENS  
WITH DISABILITIES**

Social Security Reform Proposal Summary: Erskin Bowles and Alan Simpson  
Co-Chairs of the National Commission on Fiscal Responsibility and Reform\*

The Co-Chairs of the National Commission on Fiscal Responsibility and Reform made a number of recommendations in their final report that would make changes to the Social Security Old Age, Survivors and Disability Insurance (OASDI) programs. This Fact Sheet summarizes the major recommendations of the Co-Chairs (“Bowles and Simpson”) containing changes to the OASDI program rules that would have an impact on the long-term solvency of the Social Security program and/or benefits people receive under those programs. It also briefly explains the possible impact each change would have on people with disabilities receiving Social Security benefits.

**Recommendations Affecting Benefits**

**Recommendation 1: Raise the normal and early retirement ages**

Under current law, the normal retirement age (NRA) is scheduled to gradually increase from 65 to 67 in 2027. This means that the NRA for a person born after 1943 but before 1960 is 66 and a person born after 1960 the NRA will be 67. The NRA is the age at which a person can collect the full benefit amount based on the formula discussed above. A person can retire before their NRA, but they will receive a lower benefit adjusted based on how long before their NRA they elect to begin collecting benefits. Under current law, the earliest a person can claim retirement benefits (early retirement age or “ERA”) is at age 62 and is not scheduled to increase. Bowles and Simpson recommend increasing the NRA from 67 to 68 in 2050 and up to 69 by 2075. They also propose increasing the ERA from 62 to 63 by 2050 and from 63 to 64 by 2075.

**IMPACT ON PEOPLE WITH DISABILITIES:** Increasing the retirement age will mean a benefit cut across the board for people claiming retirement benefits, as well as their adult children with disabilities (“DAC” benefits). Although this recommendation does not directly affect the level of disability benefits a person would receive under the Disability Insurance program, it would have a negative impact on retirees and their families. People with disabilities but who do not meet the stringent requirements for the Disability Insurance program would receive lower benefits. The change also will likely affect the disability program. In particular, raising the ERA will cause more people age 62-64, no longer eligible for ERA benefits, to apply for Disability Insurance benefits. This will add to the administrative workload, increasing the processing time for disability applications and increasing the delay in awarding benefits. To help address this, Bowles and Simpson propose a hardship exemption for workers over 62.

**Recommendation 2: Change the cost of living adjustment (COLA) measure**

All Social Security benefits, including Disability Insurance benefits, are adjusted each year based on changes to the Consumer Price Index (CPI). The Bureau of Labor Statistics calculates a number of different CPIs based on different factors and different populations. The Social Security COLA is currently based on a measure Bowles and Simpson call the “standard CPI.” Bowles and Simpson recommend basing the COLA on a different CPI named the “chained CPI.” The chained CPI generally finds a smaller increase in the cost of living year to year and bases its rate on something known as the “substitution effect.” The substitution effect posits that when prices on a particular item go up, people will substitute other less expensive items in their place. For example, if steak prices rise, a person will buy hamburger instead.

**IMPACT ON PEOPLE WITH DISABILITIES:** Basing the Social Security COLA on the chained CPI will result in significantly lower lifetime benefits for all people receiving Social Security, including people with disabilities. This impact might be particularly acute for people with disabilities as it is

cumulative. Because benefits are adjusted to provide a COLA based on the CPI each year, the longer a person receives benefits, the greater the reduction in their lifetime benefits.

### **Recommendation 3: Change the formula through which benefits get calculated**

Because the OASDI programs are insurance programs, a person's monthly benefit amount is calculated based on his or her average lifetime earnings. A certain percentage of those average lifetime wages are replaced by the Social Security benefit (for more information on how benefits are calculated, visit [www.disabilityandsocialsecurity.org/docs/SSFACTSHT8.pdf](http://www.disabilityandsocialsecurity.org/docs/SSFACTSHT8.pdf).) Bowles and Simpson recommend changing the current formula to replace a lower percentage of a person's wages for all income over \$9000 per year.

#### **Current Benefit Formula:**

\$0-\$9,000: 90% of income replaced\*\*

\$9,000-\$64,000: 32% replaced

\$64,000-\$107,000: 15% replaced

#### **Bowles - Simpson Recommendation:**

\$0-\$9000: 90%

\$9,000-\$38,000: 30%

\$38,000 - \$64,000: 10%

\$64,000-\$107,000: 5%

**IMPACT ON PEOPLE WITH DISABILITIES:** If enacted, this recommendation will result in lower benefits for everyone who receives benefits (retirees, survivors, and people with disabilities) from any of the Social Security programs and has average yearly earnings over \$9000.

### **Recommendations Affecting Revenue:**

#### **Recommendation 4: Increase the maximum taxable earnings to cover 90 percent of wages by 2050**

In 2011, a person is only required to pay Social Security taxes on the first \$106,800 of wages earned. Although that amount is adjusted yearly, the adjustments have failed to keep pace with wage growth of high income earners. In the early 1980's, 90% of the wages earned by Americans were covered by Social Security taxes but that has fallen to only about 86% in 2009 and is projected to fall to 83% by 2020 under current law. Bowles and Simpson propose to gradually increase the taxable maximum so that 90% of wages are covered by 2050. This recommendation would result in a taxable maximum of approximately \$190,000 in 2020 (versus a projected \$168,000 in 2020 based on current law).

**IMPACT ON PEOPLE WITH DISABILITIES:** This recommendation would result in increased revenue for the OASDI Trust Funds. This would have no direct effect on the amount of benefits received by a particular person under any Social Security program. It would, however, likely mean benefit cuts would not be necessary to keep the program solvent.

#### **Recommendation 5: Cover Newly Hired State and Local Workers**

Currently, over 90 percent of American workers are covered by Social Security and pay into the system. However, some state and local government workers are covered by separate retirement systems and do not pay into the system. Bowles and Simpson propose requiring all state and local workers hired after 2020 to be covered by Social Security and pay into the system.

**IMPACT ON PEOPLE WITH DISABILITIES:** This recommendation does not have a direct impact on benefits in any Social Security program. It has a positive effect on the solvency of the trust funds in the short-term due to new people paying in, but a slightly negative effect on the solvency of the trust funds in the long-term as newly covered workers would begin collecting benefits.

\*All recommendations contained in this Fact Sheet are from the Co-Chairs report. The report failed to get the required 14 votes it needed in order for it to be the recommendations of the entire Commission. This summary does not include every recommendation made by Bowles and Simpson.

\*\*The dollar amount at which the replacement percentage of someone's average wages changes are known as "bend points." The percentages are set by statute but the bend points change based on inflation.

Produced by the **Consortium for Citizens with Disabilities** (CCD) Social Security Task Force. See [www.disabilityandsocialsecurity.org](http://www.disabilityandsocialsecurity.org) for more information about the Task Force's public education and outreach campaign. To learn more about CCD, a coalition of over 100 national organizations, go to [www.c-c-d.org](http://www.c-c-d.org).