CONSORTIUM FOR CITIZENS WITH DISABILITIES

Social Security Reform Proposal Summary: Restoring America's Future
Proposal by Senator Pete Domenici and Alice Rivlin of the Bipartisan Policy Center

On January 25, 2010, the Bipartisan Policy Center launched a debt reduction task force to develop a long-term plan to reduce the debt. Alice Rivlin and former United States Senator Pete Domenici were asked to co-chair this task force. The task force released its final report, Restoring America's Future, in November 2010. The report contained the final recommendations of the task force. This summary outlines the major recommendations made by the task force.

Recommendations Affecting Benefits

Recommendation 1: 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 receiving benefits through any Social Security program. This impact might be particularly acute for people with disabilities receiving Disability Insurance benefits 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 2: 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 monthly lifetime wages are replaced by the Social Security benefit (for more information on how benefits are calculated, visit www.disabilityandsocialsecurity.org/docs/SSFACTSHT8.pdf.). The task force recommends changing the current formula to replace a lower percentage of a person's wages for all average monthly income over $4,517.00.

Current Benefit Formula:	**Rivlin-Domenici Recommendation:**
$0-$749: 90% of monthly income replaced*	$0-$749: 90%
$749 - $4,517: 32% replaced	$749-$4,517: 32%
>$4,517: 15% replaced	>$4,517: 10%

> **IMPACT ON PEOPLE WITH DISABILITIES:** If enacted, this recommendation will result in lower benefits for anyone who receives benefits (retirees, survivors, and people with disabilities) from any of the Social Security programs and has average monthly earnings over $4,517.00

Recommendation 3: Index the benefit formula for longevity
The task force also recommends indexing benefits for longer life expectancies. Beginning in 2023, when the changes to the retirement age in current law are completed, the replacement rates in the benefit formula (see

recommendation 2 for more information on the formula and replacement rates) will be reduced to 99.7% of what they were in the previous year. For example, if a person with a certain average income retired at the full normal retirement age in 2022 received a retirement benefit of $1000/month, a person with the same average earnings who retired at the full normal retirement age in 2023 would only receive $997/month. This effect would be cumulative, so a different person with the same earnings retiring in 2024 would only receive $994/month. This proposal specifically exempts people receiving Social Security disability benefits until they reach normal retirement age and their benefit is changed from a disability benefit to a retirement benefit, at which time their benefit **would be** reduced to reflect the indexing for longevity.

> **IMPACT ON PEOPLE WITH DISABILITIES:** Indexing the benefit formula for increases in longevity will mean a benefit cut across the board for people claiming retirement benefits starting in 2023, 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 affect workers with disabilities who retire and claim retirement benefits, as well as the benefit level of people who had been receiving disability insurance benefits and then convert to retirement benefits at normal retirement age.**

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. The task force proposes to gradually increase the taxable maximum over the next 38 years so that 90% of wages are covered by the end of the 38 year period.

> **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 might 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.

*The dollar amounts 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.

** The proposal attempts to protect very low income workers by enhancing the "special minimum benefit" by increasing it to 133% of the federal poverty level for people with at least 30 years of Social Security work credits and by giving everyone between the ages of 81 and 85 a bump in benefits equal to 1% of the average benefit each of those years.

Produced by the **Consortium for Citizens with Disabilities** (CCD) Social Security Task Force. See 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.