



Final Actions of the Fiscal Commission

On December 1, 2010, the co-chairs of the National Commission on Fiscal Responsibility and Reform released a proposed report to reduce the federal debt and make changes to Social Security and Medicare. This proposal would cut government spending even deeper than what was proposed in the original co-chairs' plan released in November. Many of the changes will leave middle class Americans finding it more difficult to prepare for a secure retirement. Like the original plan, the co-chairs' proposal focuses heavily on targeting cuts to Social Security and Medicare.

On December 3, 2010, the full Commission met to vote on the co-chairs' proposal. Under the Executive Order that created the Commission, 14 votes of the 18 members were necessary to make the proposal an official recommendation of the Commission. **The Commission voted 11 to 7 in favor of the proposal, which means the Commission did not adopt the proposal.** Here is the vote of the commissioners: **YES VOTES:** President Obama appointees Co-Chairs Erskine Bowles and Alan Simpson as well as David Cote, Ann Fudge, and Alice Rivlin; Senators Kent Conrad (D-ND), Richard Durbin (D-IL), Tom Coburn (R-OK), Mike Crapo (R-ID), and Judd Gregg (R-NH); and Representative John Spratt (D-SC). **NO VOTES:** Obama appointee Andy Stern; Senator Max Baucus (D-MT); Representatives Xavier Becerra (D-CA), Jan Schakowsky (D-IL), David Camp (R-MI), Jeb Hensarling (R-TX), and Paul Ryan (R-WI).

Frightening Proposed Cuts to Social Security

Change the Retirement Benefit Formula to Cut Benefits for the Middle Class

The co-chairs proposal recommends altering the retirement benefit formula in a way that will result in benefit cuts for individuals making more than \$38,000 a year. Earnings of \$38,000, which currently generates \$1,500 in benefits per month, would drop to \$1,460 after the change. Likewise, earnings of \$64,000, which now result in benefits of \$2,200 per month, would be reduced to \$1,700.

Reduces the COLA for All Seniors – Including Current Retirees

Starting in 2012, the annual Cost of Living Adjustment (COLA) will be calculated using the chained-CPI (consumer price index based on prices) rather than the current CPI-W (consumer price index based on workers' wages). This revised

method will severely reduce monthly benefits. For instance, the Social Security benefits paid to someone collecting benefits for 10 years would be about 3 percent lower, on average, if the chained-CPI was used for the COLA instead of the current CPI-W. After 20 years this reduction would reach 6 percent and 9 percent after 30 years.

Raises the Full Retirement Age to 69

Currently, an individual is eligible for Social Security upon turning 65. Under current law, that eligibility age will increase to 67 in 2027. The co-chairs proposal recommends further increasing the full retirement age to 68 by 2050 and to 69 by 2075. This change amounts to a 13% benefit cut on top of the 13% cut *already* made when the retirement age was increased from 65 to 67.

Raise the Early Retirement Age to 64

Currently, an individual is eligible for early retirement at age 62. The co-chairs' proposal pushes the early retirement age to 63 in 2050 and to 64 by 2075. For individual who physically cannot work past 62 but who do not qualify for disability benefits, the co-chairs' proposal includes a hardship exemption that would allow these individuals to claim benefits at 62. The co-chairs' proposal, however, does not provide any guidance as to how this exemption would apply. Instead, it charges the Social Security Administration to figure this out. Additionally, this exemption is capped at 20% of retirees.

Frightening Proposed Cuts to Medicare

Limits Medicare Spending

The co-chairs' proposal limits the government's total health expenditures (Medicare, Medicaid, Children's Health Insurance Program (CHIP), exchange subsidies, employer health exclusion) at the Gross Domestic Product (GDP) + 1%. This radical spending limit does not account for new Medicare beneficiaries.

Introduces Premium Support

Currently, Medicare operates as a defined benefit system. It pays for medical care without limits. If the government does not meet its spending reduction target, the co-chairs' proposal recommends using premium support, which means beneficiaries would receive a fixed amount of money to purchase health benefits.

Raising Medicare Retirement Age

While the co-chairs' proposal does not single out raising the Medicare retirement age as a solution, the report does offer it as an option if the spending reduction targets are not met.



Increase Beneficiary Premiums or Cost-sharing

The Independent Payment Advisory Board (IPAB) is entrusted under the new health care law to provide recommendations on how to reduce medical costs under Medicare; however, they are forbidden from recommending changes that would impact beneficiaries, such as increases in cost-sharing or reductions in benefits. The co-chairs' proposal recommends doing away with this prohibition and allowing IPAB to make cost-sharing changes.

Restrict First-Dollar Coverage in Medigap Policies

In an effort to discourage the use of Medicare benefits, the co-chairs' proposal prohibits Medigap plans from covering the first \$500 of enrollee's cost-sharing and limits coverage to 50 percent of the next \$5,000 in Medicare cost-sharing.

Conclusion

Increasing the Social Security retirement age to 69 and reducing monthly benefits would be devastating for current and future retirees. While upper income Americans are living longer, the life expectancy of lower-income men has increased only slightly and the life expectancy of lower-income women has actually declined. Today's workers would have to stay on the job longer, only to receive lower benefits when they retire. This change would cause far more pain for middle class Americans on Main Street than it would for speculators on Wall Street. Additionally, instead of cutting seniors benefits by changing the COLA formula, the COLA should actually be increased because it does not adequately take account of skyrocketing medical costs, which hit seniors and people with disabilities hardest. Medicare beneficiaries would also suffer under the co-chairs' proposal through higher out-of-pocket costs and mandatory reductions in services, such as in long term care services.



What Happens Next?

Earlier in 2010, Senate and House leaders stated they would bring a Commission report to a vote. Since there is no official Commission report, elements of it most likely will be used in Congress during budget and spending debates in 2011.



Additional Resources on the Fiscal Commission

- Alliance website: <http://www.retiredamericans.org/beware-fiscal-commissions>
- Fiscal Commission's website, including the Co-Chairs' Proposal: <http://www.fiscalcommission.gov>
- Social Security Works: <http://socialsecurity-works.org>
- Social Security Matters: <http://www.socialsecuritymatters.org/Home.html>

