

December 12, 2012

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Mitch McConnell
Republican Leader
United States Senate
Washington, DC 20510

The Honorable John Boehner
Speaker
United States House of Representatives
Washington, DC 20515

The Honorable Nancy Pelosi
Democratic Leader
United States House of Representatives
Washington, DC 20515

Dear Leader Reid, Leader McConnell, Speaker Boehner, and Leader Pelosi:

As efforts to address our nation's debt continue, we are writing to express our opposition to changing the formula used to calculate the annual cost of living adjustment (COLA) because of the harmful effects it will have on veterans and Social Security benefits.

The Congressional Budget Office estimates that adopting the chained consumer price index (CPI) to calculate annual COLAs could save the government \$208 billion over ten years by reducing Social Security, disability, and other benefits, and by increasing revenues. More than half of this amount – \$112 billion – would come from Social Security cuts, which veterans rely on very heavily for both retirement and disability benefits. Another 11 percent of the savings – \$24 billion – would come from VA benefits, civilian pensions, and military retirement pay.

We estimate that use of the chained CPI would have a significant effect on benefits that millions of veterans depend on in the following ways:

- **Social Security Retirement Benefits:** Social Security is one of our nation's most important programs serving veterans and their dependents and survivors. It currently pays benefits to over 9 million veterans – about 4 in 10. The average retirement benefit of a veteran receiving Social Security was about \$15,500 in 2010. Adopting the chained CPI would significantly reduce those benefits, by changing the manner in which COLAs are determined. A veteran with average earnings retiring at age 65 would get nearly a \$600 benefit cut at age 75, and a \$1,000 cut at age 85. By age 95, when Social Security benefits are probably needed the most, that veteran would face a cut of \$1,400 – a reduction of 9.2 percent.

Not only would a Social Security COLA cut hurt veterans and their families; it is also misguided policy. Social Security is self-financed by the contributions of workers and employers. In effect, it belongs to its contributors. It is separate from the rest of the budget. To use it to reduce the federal deficit, which it did not cause, or effectively to fund other parts of the government or to help maintain tax breaks unrelated to Social Security, is to break the promise of Social Security.

- **VA Disability Compensation Benefits:** Veterans are generally eligible for VA disability compensation benefits if they become disabled due to injuries or illnesses sustained during, or as a result of, military service. There were 3.2 million veterans receiving these benefits in 2010. A veteran receiving VA disability compensation due to a service-connected disability rated at 100 percent is currently entitled to receive \$33,288 a year. Under the chained CPI, which is a cut in the formula traditionally used to determine the COLA for VA benefits, a disabled veteran who started receiving benefits at age 30 would have their benefits reduced by \$1,425 at age 45, \$2,341 at age 55 and \$3,231 at age 65.
- **VA Pension Benefits:** Veterans with low incomes who are either permanently and totally disabled, or age 65 and older, may be eligible for pension benefits if they served during a period of war. More than 310,000 veterans received VA pension benefits in 2010. The current benefit for a veteran is just \$12,256 a year. Under the chained CPI, VA pension benefits for veterans aged 65 and older living in poverty would be reduced by \$353 at age 75, \$696 at age 85 and \$1,029 at age 95.

Social Security and veterans' benefits need to be based on an accurate measure of inflation. The current COLA formula understates the true cost-of-living increases faced by seniors and people with disabilities because it does not take into account their higher share of spending devoted to health care, and that health care prices rise much more rapidly than overall prices. Although veterans who have service-connected disabilities and those receiving pension benefits are eligible for VA health care, they may still be impacted by rising out-of-pocket health care costs. Adopting the chained CPI would make the situation worse.

Instead, Social Security and VA benefits should be based on a formula that takes account of these higher health care costs called the CPI-E (Experimental CPI for the Elderly) developed by the Bureau of Labor Statistics. The CPI-E rises at a slightly faster rate than the formula currently used to calculate the COLA, and at a still faster rate than the proposed chained CPI, providing a modestly more generous COLA for seniors and people with disabilities.

We agree that political leaders need to restore fiscal discipline, but we believe it should be done with great care and without reneging on this country's promises to veterans, including the promises of Social Security and VA disability compensation and pension benefits – all of which are modest in size. Many veterans who rely on these programs live on fixed incomes and very tight budgets. For them, every dollar of hard-earned benefits counts in meeting basic expenses, attaining quality of life, and building a better future for themselves and those who depend on them. For many of them, reducing the annual COLA would mean real sacrifice. We ask that you not do that for those who have already sacrificed so much for this great country.

Thank you for your serious consideration of our views. We look forward to working with you on this important matter.

Sincerely,

Air Force Sergeants Association
Air Force Women Officers Associated
American Military Retirees Association
American Military Society
Association of the United States Navy
Blinded Veterans Association

Gold Star Wives
Iraq and Afghanistan Veterans of America
Jewish War Veterans
Military Officers Association of America
National Association for Uniformed Services
National Guard Association of the United States
National Military Family Association
Paralyzed Veterans of America
Veterans for Common Sense
Veterans of Foreign Wars
VetsFirst, a program of United Spinal Association
Vietnam Veterans of America