S. HRG. 100-255

DEVELOPING A CONSUMER PRICE INDEX FOR THE ELDERLY

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

WASHINGTON, DC

JUNE 29, 1987

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CONTENTS

CHRONOLOGICAL LIST OF WITNESSES

APPENDIX

DEVELOPING A CONSUMER PRICE INDEX FOR THE ELDERLY

MONDAY, JUNE 29, 1987

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room SD-628, Dirksen Senate Office Building, Hon. John Melcher (chairman of the committee) presiding.

Present: Senators Melcher, Chiles, Reid, Wilson, and Simpson.

Staff present: Max I. Richtman, staff director; Christopher Jennings, professional staff; Jim Michie, chief investigator; Mike Werner, investigator; Bill Ritz, communications director; Sarah Dodge, deputy communications clerk; Larry Atkins, minority professional staff; Laura Erbs, minority professional staff; Craig Obey, legislative correspondent; Olaf Reistrup, intern; Tammy Lipscomb, systems administrator; Dan Tuite, printer; and Laura Kohn, intern.

OPENING STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM THE STATE OF MONTANA AND CHAIRMAN, SPECIAL COMMITTEE ON AGING

The CHAIRMAN. The committee will come to order.

This morning we have a hearing on just what makes up the consumer price index (CPI). We have a strong feeling that something has gone completely haywire. This is very important to the millions of older Americans whose cost-of-living adjustments are based on the CPI.

Last January 1, older Americans on Social Security, retired Americans on railroad retirement benefits, and retired Federal employees, received a cost-of-living adjustment of 1.3 percent. And that is when we knew something was haywire.

You know, retirees are not likely—at least those who are 70 or older—are not very likely to finance a new home, a new car or, for that matter buy a whole lot of gasoline. And I mention those three items because in 1986, the cost of financing a new home went down, the cost of financing a new car went down, and gasoline and diesel prices decreased. As a result the bulk of us experienced lower inflation rates in 1986.

What do retirees buy that is different? Well, they spend greater amounts of their income on hospital and doctor costs. These health care costs went up 8 percent last year. And prescription drugs? Yes, retirees buy a whole lot of prescription drugs, and they went up about 9 percent. And retirees need to have a phone for local

service. Over the past 3 years telephone usage charges increased about 24 percent, with an average of around 8 percent. And public transportation, which for many Americans, has replaced their individual cars went up about 8 percent. Last but not least, even funerals went up an estimated 6 percent. Now, these are things that older Americans have to buy and they don't have much choice about it.

So, rather than just looking at the consumer price index and how it affects every American, we have come to the conclusion that we need a new consumer price index for older Americans which accurately reflects older Americans buying habits and the inflation they face. So, we did something about this situation.

Our first step was to attach to a supplemental appropriation bill a requirement that the Bureau of Labor Statistics at the Department of Labor, tell us what could be different about a consumer price index for older Americans and how it could be perhaps fair and honest and reflect the inflationary factors on older Americans.

That bill has not been finalized yet, but we hope that that portion of the bill remains intact, and that the President signs the bill into law. It would require the Bureau of Labor Statistics to report back to Congress in 90 days.

Now, you understand, all of you I believe, that what is shown in the consumer price index is what by law results in the cost-of-living adjustments for all those groups of retirees that I earlier mentioned. And Congress, after we get the report, should look at that very seriously, and I think we will. And if it indicates, as we all are confident it will indicate, that the weighting of various cost items in a consumer price index for older Americans indeed should be different than the rest of us, then we may want to seriously consider adopting a different index for formulating cost-of-living.

Well, I think we have started down a path that is right, proper, legitimate, obviously needed, and one that Congress will with compassion, understanding and fairness want to adopt.

Senator Reid.

[The prepared statements of Senators Melcher, Glenn, Heinz and Shelby follows:]

United States Senate
SPECIAL COMMITTEE ON AGING
WASHINGTON, DC 20510-6400

OPENING STATEMENT

SENATOR JOHN MELCHER
Chairman, Senate Special Committee on Aging

June 29, 1987 hearing
Developing A Consumer Price Index
For The Elderly

Good Morning. On behalf of my colleagues on the Special Committee on Aging, I'd like to welcome everyone to this morning's hearing on the development of a new Consumer Price Index for the elderly.

We are holding this hearing today to begin to get an accurate picture of the inflation the elderly face. I say "begin to," because I don't believe our currently used consumer price index is providing this important information for us.

To address this problem, on May 27th, the Senate passed -- by a 95-0 vote -- an amendment I offered to H.R. 1827, the Supplemental Appropriations Bill, which directs the Bureau of Labor Statistics to develop a separate consumer price index for older Americans. A joint Senate/House Conference Committee for H.R. 1827 is currently meeting, and it is my hope and expectation that my amendment will be included in the final Conference-reported version of this legislation.

As we all know, cost-of-living adjustments (COLAs) for Social Security and other retirement programs are tied to changes in the CPI. Last January, folks who depend on these programs for much of their income received a COLA increase of only 1.3 percent. They looked back and remembered the goods and services they purchased in 1986 and could not believe that their costs had risen only 1.3 percent. They felt cheated.

As a result, I -- along with most of my colleagues -- received numerous letters and calls from retirees who told me that the increase didn't come close to covering the increase in their expenses. They told me that they didn't want more than they deserve, but that they couldn't believe that this reflected the inflation they faced. They were reading about how inflation in the health care industry was quadrupling the general inflation rate and then being told by the government that their own inflation rate was only 1.3 percent. It was and is hard for them -- and for me -- to figure.

Quite frankly, I have more than a few concerns about the way the CPI is calculated. Millions of Americans count on their income from Federal retirement programs keeping pace with inflation, and the CPI should fairly reflect their costs.

Senior citizens don't buy too many new cars or finance new houses, but housing is by far the most heavily weighted component in the CPI. Since interest rates went down last year, housing dragged down the entire index.

Retirees spend more on food, medical care, and fuel than the general population. While the prices of food and fuel tend to fluctuate dramatically, medical costs have been rising persistently in recent years. Prescription drugs alone rose 9 percent from 1985 to 1986.

The cost of health care, something which affects the elderly more than the general population, went up 8 percent last year. On average, 11 percent of the elderly's expenses goes to medical care. On a hundred point scale, the CPI's weight for medical care is only 4.469. In spite of this difference, this year the Bureau of Labor Statistics actually lowered the medical weighting in the CPI.

Another concern I have is the length of time between major reweightings of the CPI. Some important changes in out-of-pocket costs are not reflected in the CPI until it is revised. This is especially important right now, at a time when we're working on the passage of a catastrophic health bill. If the BLS continues its practice of reweighting only once every decade, the resulting new premiums for catastrophic coverage will not appear in the CPI until it's next major revision -- ten years from now.

Along with many older Americans, I am not confident in the present CPI as a yardstick of the inflation faced by the elderly. Some studies show that their COLAs should have gone up by as much as another full percentage point last January. If they had, an average worker would have received an additional 5 dollars a month -- 60 dollars more for the entire year. This may not seem like much to you and me, but it's important to someone trying to get by on a fixed income.

The COLA increases for some seniors were almost entirely offset by the increase in Medicare part B premiums. A small five dollar increase would have compensated for this. These people got the short end of the stick last year, and I want to find out how we can prevent that from happening again.

The CPI-W, which is currently used to determine COLA's, doesn't even measure retirees. Some people believe that the newer CPI-U, which does include the retired population, should be used to track their inflation, rather than the CPI-W or a separate retirees' index. I agree with the AFL-CIO, who says that while the CPI-U does measure retired people, their buying patterns are drowned out by those of the overall population. The only way the elderly can be assured of getting a fair shake is to have an index which accurately reflects the inflation they face.

Today, we'll be hearing from Florence Thompson, Rose Affayroux and Margaret Fleming. Unlike at many hearings you see around here, these three women are representative of the rule, and not the exception to the rule. They do not have unordinary expenses, but they will help shed light on how increased costs for the goods and services they (and many other elderly) need make it difficult for them to get through the month.

Dr. Arthur Flemming, who currently serves as the chair of "Save Our Security" (SOS) also will be testifying. As a former Secretary of Health, Education and Welfare, and a man who has given his life to public service, I am sure he will have a lot to offer to this subject.

Then we'll hear from R.T. Bates, who is President of the Brotherhood of Railroad Signalmen and Chairman of the Railway Labor Executives' Association's Committee on Railroad Retirement. He is accompanied by Mr. James R. Snyder, Chairman of the RLEA's Legislative Committee and Mr. William G. Mahoney, its counsel.

Representing senior citizen groups will be Judith Brown of the American Association of Retired Persons, Judy Park from the National Association of Retired Federal Employees and Martha McSteen, a former acting Commissioner of Social Security, who will be representing the National Committee to Preserve Social Security and Medicare.

Finally today, we will hear from Janet Norwood, Commissioner of the Department of Labor's Bureau of Labor Statistics, the agency which publishes the CPI, and Larry Thompson, Chief Economist of the General Accounting Office. Mr. Thompson will be accompanied by David Attianese, who directed a 1982 GAO study on a CPI for retirees.

I'm looking forward to our witnesses' testimony today, and would like to thank you all for being here. With your help, we are going to show just how much this country needs a separate CPI for retirees and how such an index should be developed.

NEWS FROM
SENATOR JOHN HEINZ
SPECIAL COMMITTEE ON AGING
Senate Hart 628 Washington, D.C. 20510-6400 (202) 224-1467

OPENING STATEMENT OF SENATOR JOHN HEINZ
DEVELOPING A CONSUMER PRICE INDEX FOR THE ELDERLY
JUNE 29, 1987

MR CHAIRMAN:

FOR MORE THAN TWO DECADES, THE MEDICAL CARE COSTS PAID BY OLDER AMERICANS HAVE BEEN STRIPPING AWAY COST-OF-LIVING INCREASES IN THEIR BENEFIT CHECKS. TODAY, OLDER AMERICANS DEVOTE MORE THAN 16 PERCENT OF THEIR INCOME TO OUT-OF-POCKET MEDICAL EXPENSES - A HIGHER PROPORTION THAN THEY PAID BEFORE MEDICARE WAS ENACTED. THE RISK OF DEVASTATING MEDICAL AND LONG-TERM CARE COSTS IS STILL A FRIGHTENING REALITY FOR OUR MOST VULNERABLE CITIZENS. THESE REAL AND RISING HEALTH CARE COSTS THREATEN THE ECONOMIC WELL-BEING AND ERODE THE STANDARD OF LIVING OF THE ELDERLY. I COMMEND YOU, MR. CHAIRMAN, FOR HOLDING THIS HEARING TODAY TO LOOK AT THE IMPORTANT RELATIONSHIP BETWEEN RETIREMENT BENEFIT INCREASES AND THE RISING COST OF LIVING OLDER AMERICANS ACTUALLY EXPERIENCE.

WHILE MEDICAL COSTS HAVE BEEN OUTPACING GENERAL INFLATION FOR DECADES, IT IS IRONIC THAT NOW, WITH INFLATION UNDER CONTROL, THE DIFFERENCE BETWEEN MEDICAL AND OTHER INFLATION HAS GROWN WIDER. LAST YEAR, WITH INFLATION AT ITS LOWEST LEVELS IN DECADES, MEDICAL COSTS SOARED AT MORE THAN 5 TIMES THE GENERAL RATE OF INFLATION. THE CONGRESS CLEARLY NEEDS TO RE-EXAMINE THE ADEQUACY OF ANNUAL COLAS WE ARE PROVIDING IN OUR RETIREMENT PROGRAMS.

BUT WE CANNOT BE SATISFIED THAT A REVISED CPI WHICH MIGHT INCREASE RETIREMENT BENEFITS A FEW DOLLARS A MONTH WOULD BE ENOUGH. WERE THE CONGRESS TO GRANT MORE GENEROUS BENEFIT INCREASES, THE INCOMES OF THE ELDERLY WOULD STILL NOT KEEP PACE WITH THE RUNAWAY RISE IN MEDICAL CARE COSTS. AND EVEN IF THE AVERAGE SIXTY-FIVE YEAR OLD COULD BE ADEQUATELY COMPENSATED FOR RISING OUT-OF-POCKET HEALTH COSTS, THE EIGHTY YEAR OLD WITH CATASTROPHIC LONG TERM CARE EXPENSES WOULD FIND SMALL COMFORT IN A SLIGHTLY LARGER BENEFIT CHECK.

THE CONGRESS HAS MORE DIRECT RESPONSIBILITY FOR PROTECTING OLDER AMERICANS FROM DEVASTATING HEALTH CARE EXPENDITURES BY CONTAINING COSTS AND IMPROVING PROTECTIONS IN THE MEDICARE PROGRAM. WE ARE NOT DOING OUR JOB AS WELL AS WE SHOULD. HEALTH COSTS HAVE RISEN FASTER THAN WOULD HAVE BEEN EXPECTED BY THE GROWTH AND AGING OF THE POPULATION. WHILE THE AVERAGE LENGTH OF A HOSPITAL STAY HAS BEEN DECLINING, THE DAILY COSTS OF CARE HAVE SKYROCKETED. THERE IS ALSO EVIDENCE THAT THE ELDERLY ARE INCREASINGLY SERVED IN OUTPATIENT SETTINGS WHERE THEY MUST SHARE A GREATER PORTION OF THE COST. AND, THERE ARE HOLES IN

MEDICARE'S BLANKET OF PROTECTION THAT LEAVE THE ELDERLY EXPOSED TO CATASTROPHIC ACUTE AND LONG TERM CARE COSTS, BALANCE BILLINGS BY PHYSICIANS, AND HIGH COPAYMENTS AND DEDUCTIBLES. IT IS TIME WE STITCHED UP THESE HOLES IN MEDICARE, BROUGHT COSTS UNDER CONTROL AND MADE THE PROGRAM WHAT WE INTENDED TWENTY-TWO YEARS AGO.

WE HAVE BEGUN RECENTLY TO TAKE IMPORTANT STEPS TOWARD THIS GOAL. LAST YEAR, WE LOWERED THE HOSPITAL DEDUCTIBLE AND EXPANDED COVERAGE FOR THE ELDERLY POOR UNDER MEDICAID. THIS YEAR AN ADDED CATASTROPHIC MEDICARE BENEFIT HAS ALREADY BEEN APPROVED BY THE SENATE FINANCE COMMITTEE AND THE TWO RELEVANT COMMITTEES IN THE HOUSE AND IS READIED FOR CONSIDERATION BY THE FULL CONGRESS. CATASTROPHIC PROTECTION WOULD PREVENT MEDICARE'S HOSPITAL INSURANCE FROM RUNNING OUT JUST WHEN A BENEFICIARY IS THE SICKEST.

IN ADDITION, I HAVE ALSO PROPOSED LEGISLATION TO ADD A PRESCRIPTION DRUG BENEFIT TO PAY FOR A COST THAT IS ONE OF THE GREATEST SOURCES OF OUT-OF-POCKET PAYMENTS BY THE ELDERLY.

THESE PROPOSALS WILL HELP PROTECT THE SICKEST AND MOST VULNERABLE ELDERLY FROM IMPOVERISHMENT. BUT THEY ARE ONLY THE BEGINNING OF THE PROTECTION WE NEED TO PRESERVE THE ECONOMIC SECURITY AND WELL-BEING OF RETIREES AS THEY ENCOUNTER HIGH MEDICAL AND LONG-TERM CARE COSTS IN OLD AGE.

I THINK IT IS TIME, MR. CHAIRMAN, THAT THE CONGRESS BEGIN TO TAKE A MORE REALISTIC VIEW OF THE ACTUAL CHANGES IN THE COST-OF-LIVING FOR THE ELDERLY. THIS HEARING WILL HELP US UNDERSTAND THIS ISSUE AND DETERMINE HOW BEST TO PROCEED IN PROTECTING SENIOR CITIZENS FROM RISING COSTS OF FOOD, HOUSING, CLOTHING, TRANSPORTATION, AND PARTICULARLY, MEDICAL AND LONG-TERM CARE.

SENATOR
JOHN GLENN

503 HART BUILDING
WASHINGTON, D.C. 20510 (202) 224-3353

STATEMENT OF SENATOR JOHN GLENN

AT A HEARING OF THE SENATE SPECIAL COMMITTEE ON AGING

DEVELOPING A CONSUMER PRICE INDEX FOR THE ELDERLY

Monday, June 29, 1987
10:00 a.m.

Room 628 Dirksen Building
Washington, D.C. 20510

Mr. Chairman, I commend you for holding today's hearing, "Developing a Consumer Price Index for the Elderly." I look forward to hearing from our witnesses about the impact of inflation on retirement income and about the best way to measure this inflation.

The Consumer Price Index (CPI) is very important for older Americans because cost-of-living adjustments (COLAs) in our major federal retirement and assistance programs are based on the CPI. It is important for us to know whether or not use of the current CPI-W adequately measures inflation faced by older Americans. And I would like to hear why recommendations to use the CPI-U for COLAs have not been implemented by the Administration.

It is likely we will hear about the cost implications of using the CPI-U or of developing a CPI-E -- a Consumer Price Index for the Elderly -- as reasons not to correct the shortcomings of the current CPI. I believe this is shortsighted, and it breaks faith with older Americans who are beyond their normal working years.

Recently, we have seen many stories which pit one generation against the other -- saying that the elderly are receiving too large a share of our limited federal dollars at the expense of the young. Many Americans who are working and paying Social Security taxes do not think they will receive benefits when they retire.

The truth is that Social Security is the greatest inter-generational program for the prevention of poverty that our country has ever created. It allows the elderly to live financially independent of their children, and it provides protection for millions of children whose parents become disabled or die.

As a result of the reforms we enacted in 1983, Social Security is financially sound well into the 21st century, and it is not adding one cent to the federal deficit. Our success in enacting this legislation was due to the willingness of both our nation's workers and retirees to make sacrifices. Payroll taxes were raised, and the COLA was delayed for six months.

Federal retirees have sacrificed as part of our deficit-reduction efforts. Under the Gramm-Rudman budget-balancing law --legislation which I strongly opposed -- all civilian and military COLAs were frozen in 1986. Fortunately, Congress has rejected attempts by the Administration to further reduce COLAs for federal retirees and to raise their retirement age.

Our nation's retirees are not looking for handouts, but they do rely on the benefits which they earned during their working years and to which they are entitled. In order for these retirement benefits to be adequate to meet today's rising costs, particularly for medical care, we must have an accurate measure of inflation in the goods and services purchased by the elderly.

The information provided at today's hearing should be very helpful in our efforts to determine the best way to measure inflation protection for our nation's retirees. I thank our witnesses for their participation.

SENATOR RICHARD SHELBY
SPECIAL COMMITTEE ON AGING HEARING
"DEVELOPING A CONSUMER PRICE INDEX FOR THE ELDERLY"

JUNE 29, 1987

Mr. Chairman, I commend you for your interest in this most vital issue. I only regret that I could not attend the hearing. I had, however, several months ago, arranged to hold town meetings in Cherokee, Calhoun, Talladega, and Cleburne counties in Alabama. From experience, I know that as I meet with Alabamians throughout the day, I will undoubtedly come in contact with many senior citizens. It is typical that in the forum of a "town meeting" the concerns I will hear about most from these senior adults will center around their struggle to "get by".

As this committee has met over the past couple of months, we have discussed many of the problems elderly Americans face -- from catastrophic health care coverage to abuses within the home health care field. Today we are to discuss and examine a problem which affects our senior adults on a day-to-day basis. Our task is simple in theory -- and a little more difficult in practice. Our witnesses will help us determine the ultimate design of a consumer price index for the elderly and how a more appropriately adjusted index will help older Americans. The testimony of these witnesses will assist us in our understanding of what needs to be considered and implemented. The Senate, as a whole, has already spoken on the need to develop a CPI for the elderly. The task before us now is to begin the first stages of examination of this CPI and a possible modification of the COLA formulation.

In June of 1982, the General Accounting Office (GAO) published a report to Congress in which it claimed that "a CPI for retirees is not needed now, but could be in the future". Well, five years later we find the American consumer in a different situation -- while the inflation rate is decreasing for the general population, the elderly consumer finds the costs of the products and services they need increasing at an alarming rate.

Our esteemed Chairman, Senator Melcher, realized the importance of a CPI for the elderly when he offered an amendment to H.R. 1827, the Supplemental Appropriations bill. His amendment would require the Department of Labor to develop an adjusted index for the elderly. Having been one of the 95 Senators who supported this measure, I hope that the supplemental conferees choose to retain the Melcher amendment in the final conference report.

But the Senate is not alone in its recognition of this critical problem. Just one week ago, our colleague on the House side, the distinguished ranking minority member of the House Select Committee on Aging, Congressman Rinaldo, introduced H.R. 2729 -- a bill to direct the Secretary of Labor to develop and publish a new consumer price index adjusted specifically for the spending habits of the elderly. Congressman Rinaldo is reacting, like many of us who want to see something done, to a cry for help from the elderly whose COLAs do not reflect the outstanding expenses they face. Just last January, I am sure we all heard the cries for help from Social Security and Civil Service Retirement recipients in our districts who received a COLA of just 1.3%.

The buying patterns and spending priorities of the elderly are special -- different from anyone else because they are based on a fixed income and very specific needs. So when prices increase and social security or other federal benefits do not increase at the same rate -- our elderly have more than a tough time getting along. In addition, the prices of the services and goods the elderly purchase tend to increase faster than those prioritized by the under age 65 population. This, on top of the unfortunate reality of catastrophic illness expenses, tends to tarnish the luster of the "golden years".

I am shocked by information brought to my attention by the Committee, that indicates a recent reweighting of the components of the CPI by the Bureau of Labor Statistics (BLS). Based on the varying of consumption and spending patterns, the BLS downweighted the medical component of the CPI claiming that government and private insurance is carrying a far greater proportion of health costs for the general population. This figure, however, does not seem to take into account the medical inflation our nation's elderly face. In addition, an April, 1987 GAO report revealed that between 1980 and 1985, the inflation-adjusted out-of-pocket cost for Medicare-covered services increased by about 49 percent for Part A services and 31 percent for Part B services.

Mr. Chairman, clearly now is the time to place the Congressional spotlight back on a CPI for the elderly and I thank you and your staff for all the work that went into organizing this important hearing. This is indeed a "first step" toward helping the members of this 100th Congress determine the need to modify the COLA formulation and at the same time provide them with a realistic representation of the effects of inflation on the elderly. I thank you for having the foresight to bring this issue back under the scrutiny of the Congress. I look forward to reviewing the testimony from today's hearing and working with my colleagues on the committee to put some of the "gold" back in the "golden years".

STATEMENT BY SENATOR HARRY REID

Senator REID. Thank you very much, Mr. Chairman.

The recent passage of your amendment to the supplemental appropriations bill requiring the Department of Labor to develop a consumer price index for the elderly represents a positive step forward for us. The unanimous support it received clearly reflects the Senate's belief that greater accuracy in determining the rising costs of living that our seniors face can only lead to more responsible and effective legislation.

I would like to start, Mr. Chairman, by commending you for your amendment and for organizing this hearing so that we may discuss how such an index should be designed. I would also like to thank the witnesses for contributing their time and effort to make this hearing a success, which I'm sure it will be.

The most recent research in this area indicates that there is no evidence to substantiate the claim that the cost of living rises more slowly for the elderly than it does for the general population. In fact, several studies suggest that seniors face slightly higher prices on essential goods and services each year. Despite these findings, the government continues to rely on an index originally developed to be used in labor contract and wage negotiations for typically blue collar workers to determine cost-of-living adjustments.

Not only is this CPI-W based on purchases made by only about 40 percent of the population, but the segment of the population measured is not the one receiving COLAs. Still more disturbing is the fact that the Bureau of Labor Statistics recently decreased the weight given to the medical component of the CPI-W. While this action may be justified when fine-tuning the measurement of the general population's health care bill, it doesn't make sense for thousands of senior citizens who spend significantly greater amounts of their income on physician visits and prescription drugs, as well as hospital stays and nursing homes.

Some economists argue that when the prices of selected goods and services increase, consumers simply change the composition of their shopping list to buy more of the goods and services with the lowest price increases. Substitution bias—as it is known—may work at the grocery store, but it doesn't work with medical care, the costs of which consistently outpace the overall inflation rate.

The whole reason for cost-of-living adjustments is to enable beneficiaries to purchase the same goods and services from year to year. Unfortunately, the present consumer price index used to set COLAs prevents senior citizens from being able to do just this. In far too many instances a quality lifestyle falls victim to the skyrocketing costs of not only medical care, but food, clothing and shelter as well because of insufficient resources.

Mr. Chairman, I am eager to hear the testimony presented here today as it should reinforce the need for an elderly index and prove helpful in the development of a new and much-needed CPI for our Nation's older Americans.

The CHAIRMAN. Thank you, Senator.

Now, our first witness will be Mrs. Florence Thompson from Fairview, Michigan. Mrs. Thompson, welcome to the committee. We believe that your testimony might be constructive for us.

STATEMENT OF FLORENCE THOMPSON, FAIRVIEW, MI

Mrs. THOMPSON. Well, I was drawing $389.

The CHAIRMAN. Ms. Thompson, I believe you are going to have to pull all of those microphones closer to you so we can hear you.

Mrs. THOMPSON. I know I talk very low.

I was drawing $389 SSI, and I had Medicaid. I get Medicare and Medicaid mixed up. And I met this gentlemen, and we decided to get married. And I knew what was going to happen, that they would take a lot of it away from me, which they did. And now I am down to $208.10 a month Social Security.

And I just had surgery on my brain so, I don't know what else to tell you, Your Honor.

The CHAIRMAN. What is your combined income now between your new husband and yourself?

Mrs. THOMPSON. It's $709.10.

The CHAIRMAN. And what were your medical bills that you had to pay out of your own pocket during the last year?

Mrs. THOMPSON. I didn't have to pay anything.

The CHAIRMAN. Are there prescription drugs that follow up from that? Or is there any cost to you as a result of that?

Mrs. THOMPSON. Well, he has one prescription that is $80 a month, and I have some here for proof, probably close to $80 a month.

The CHAIRMAN. Both of you combined then have to purchase prescription drugs at $160 a month?

Mrs. THOMPSON. Yes.

The CHAIRMAN. Out of the $709? Well, I believe that leaves you $549 cash after paying for prescription drugs.

Mrs. THOMPSON. Right.

The CHAIRMAN. Have you had any other medical costs—that came out of your own pocket?

Mrs. THOMPSON. Well, only blood test when we got married. That was $32.

The CHAIRMAN. All right.

What about your other bills? Have you noticed any of those increasing during 1986?

Mrs. THOMPSON. We pay $193 for rent a month.

The CHAIRMAN. Has that gone up?

Mrs. THOMPSON. Yes.

The CHAIRMAN. When did it go up?

Mrs. THOMPSON. When we got married.

The CHAIRMAN. There is a marriage tax then, indeed, isn't there?

Mrs. THOMPSON. And my phone bill was $36.80 due to the fact that I had it transferred from one apartment to another.

The CHAIRMAN. Was that just a one-time charge?

Mrs. THOMPSON. Yes. It's usually about $20.

The CHAIRMAN. Per month.

Mrs. THOMPSON. Yes.

The CHAIRMAN. Between the rent, the prescription drugs and the phone bill, then we're talking about $378 out of that $709.

Mrs. THOMPSON. Then we have a $131.62 car payment.

The CHAIRMAN. You still have a car?

Mrs. THOMPSON. Yes.

The CHAIRMAN. All right. That brings it up to $509. That leaves you $200.

Mrs. THOMPSON. And $15.55 for insurance.

The CHAIRMAN. That doesn't leave you a whole lot of disposable cash to use for groceries.

Mrs. THOMPSON. And church and gas.

The CHAIRMAN. And church.

Have you any savings?

Mrs. THOMPSON. Yes.

The CHAIRMAN. How much savings do you have, if you don't mind telling us?

Mrs. THOMPSON. Well, this says $278.67 due to the fact that I paid all my bills out of that one. I mean, my car payment came out of it.

The CHAIRMAN. That is your savings?

Mrs. THOMPSON. Yes.

The CHAIRMAN. That's the entire savings?

Mrs. THOMPSON. Well, I do have—that's my checking. My savings is $524.81 minus $100.

The CHAIRMAN. Minus $100.

Mrs. THOMPSON. So, it would be $424.81.

The CHAIRMAN. When did you get married?

Mrs. THOMPSON. April 13.

The CHAIRMAN. Of this year.

Mrs. THOMPSON. Yes.

The CHAIRMAN. So, the income is $709. And both of you experienced then a 1.3 percent increase at the first of the year, but by getting married, you wiped out some of your own.

Mrs. THOMPSON. That's right.

The CHAIRMAN. That's a narrow amount of disposable income. Any choices on all these other costs are fixed.

Thank you very much Mrs. Thompson.

Senator Reid.

Mrs. THOMPSON. You're welcome, Your Honor.

Senator REID. Mr. Chairman, thank you.

The CHAIRMAN. Please stay, Mrs. Thompson.

Senator REID. It's my turn.

Mrs. THOMPSON. Oh, I'm sorry.

Senator REID. You have been most helpful.

It appears to me that from a financial standpoint you would have been better off not getting married. Isn't that right?

Mrs. THOMPSON. Right.

Senator REID. Do you find that there are essentials you must pay for, like the phone. Why do you need a telephone?

Mrs. THOMPSON. Well, my husband was sick, and I thought I should take care of him. He wasn't eating properly, and he was passing out, and very helpful to me when I had my surgery.

Senator REID. So, the phone, in effect, is your contact to the outside world on a lot of occasions. Is that right?

Mrs. THOMPSON. Right.

Senator REID. You haven't told us how old you are. Do you mind telling us?

Mrs. THOMPSON. Seventy-one.

I'll be seventy-two July 6.

Senator REID. And how about your husband? How old is he?
Mrs. THOMPSON. Eighty.
Senator REID. He's 80?
Mrs. THOMPSON. Yes.
Senator REID. Do you live in a senior citizens complex?
Mrs. THOMPSON. Yes.
Senator REID. Are there a lot of people living around you that have financial problems similar to yours?
Mrs. THOMPSON. Well, I have one lady friend that is having a lot of difficulties due to the fact that her husband just died, and she is getting all his bills from the hospital. And she has to pay it out of what Social Security she gets, plus she had surgery herself. And she is getting both bills in at the same time.
Senator REID. So, there are other people that you know that live in your complex that also have financial problems.
Mrs. THOMPSON. Yes.
Senator REID. The Chairman has gone over your bills, and they add up very quickly. You've indicated that you and your husband receive about $700 and something a month. Isn't that right?
Mrs. THOMPSON. Yes, Your Honor.
Senator REID. The bills we have gone over with you add up to over $500 a month.
Mrs. THOMPSON. Right.
Senator REID. So, tell me what you do for food?
Mrs. THOMPSON. Well, we eat a lot of corn flakes.
Senator REID. What do you eat a lot of other than corn flakes?
Mrs. THOMPSON. Chicken, the cheapest you can get.
Senator REID. I have no further questions, Mr. Chairman.
The CHAIRMAN. Senator Simpson.

STATEMENT OF SENATOR ALAN K. SIMPSON

Senator SIMPSON. Well, Mr. Chairman, I don't have any questions of this lady. I do appreciate what you're doing. I just wanted to show up to prove to you that I was on this committee. Wasn't that something? [Laughter.]

And it is Monday, and no one dreamed that I would do that.

But I do want to involve myself. I do want to learn. We have a serious issue. And I admire your persistence in pursuing hearings in some detail. And I do intend to participate, and that is what I wanted to share with you because certainly we have an obligation to our elderly in America, and we have serious issues with regard to the deficit, and serious issues with regard to need. Some need it more than others. I practiced law for 20 years. I was always fascinated at the needs of the aged, and fascinated at what they required. And some, you know, would take a ride on those who they hoped would get more for them, and who didn't need more themselves. I'm not going to get into that. I didn't come on the committee to get ringy.

But you know, when we think of people over 65, we cannot just lump them all in wretched circumstances. And we must—that's our job—match our compassion with wisdom and honesty as we deal with the needs of those in the aged population. That I pledge to do with you, sir.

The CHAIRMAN. Thank you very much, Senator.

Mrs. Thompson——

Mrs. THOMPSON. Yes?

The CHAIRMAN [continuing]. Before we let you go, let me offer you and your husband congratulations on your marriage. And second, let us all wish you a happy birthday next week on July 6.

Mrs. THOMPSON. Thank you.

The CHAIRMAN. Thank you very much for coming to testify today.

Mrs. THOMPSON. Thank you, Your Honor.

The CHAIRMAN. Mrs. Rose Affayroux from Baltimore, Maryland.

Mrs. AFFAYROUX. Good morning.

The CHAIRMAN. Good morning, Mrs. Affayroux.

Mrs. AFFAYROUX. Before you ask me, I'm 71 years old. [Laughter.]

And proud of it.

STATEMENT OF ROSE AFFAYROUX, BALTIMORE, MD

Mrs. AFFAYROUX. I'm here this morning because I feel that I might be able to help sway something somewhere or somehow.

In December of 1986 my Social Security check was $415. We got a raise. I was real happy to read the notice when we got it. So, my next check, which was for the January period, $418, a big $3 raise. I wondered if they could afford to give it to us, or did they want it back.

I am one of the lucky few. I'm healthy. I have no—I won't say no medical expenses, but I have no expenses for medicine. Neither me or my husband take any kind of prescriptions. We don't have to spend money on that.

My husband had two heart attacks 15 years ago. He had to retire from work, was unable to work. In the past two years, he has developed a vascular problem. He has had two operations on his leg. The most recent one was in January. Medicare and my Blue Cross paid for most of it. We had to pay—they take x-rays but they send the x-rays out to a laboratory to read. You get bills for that. Medicare does not pay for it. Blue Cross doesn't pay for it.

I had an accident in January. I fell and struck my head. I had to have nine stitches. I went to the accident room. Again, Medicare and Blue Cross paid for it, but I had to pay for the laboratory tests and everything. Fine and good. That all adds up; $20 here and $20 there.

I pay $450 a month rent. As of Wednesday, my rent is $475. I pay $96.10 a month for Blue Cross and Blue Shield, plus $67 for life insurance.

The CHAIRMAN. Was that Blue Cross-Blue Shield?

Mrs. AFFAYROUX. Yes, sir. That pays for my medical, and it pays for what Medicare does not pay.

The CHAIRMAN. How much is that per month?

Mrs. AFFAYROUX. It's $96.10.

The CHAIRMAN. Please proceed.

Mrs. AFFAYROUX. My utilities are not included in my rent. I pay $122 a month, which is on a budget plan.

I have the lowest phone that I could possibly get. I pay for the calls that I make, and I try to make very few. I only keep it as a convenience because I may need it any time during the night for my husband.

We get a total of $923 a month.

We do not own a car because we couldn't afford to pay for the insurance to keep it on the road or buy the gasoline. We don't go out very often. When we were younger, we used to go out at least two or three times a week. But that's been a long, long time ago.

The only thing that I hope that the next time that they come up with a price index, that they use the same one that the judges and the Congressmen use when they gave themselves a raise. It would help us a whole lot because one of the raises is practically as much as we get for a whole year.

The CHAIRMAN. Mrs. Affayroux, the total income per month between you and your husband is $923.

Mrs. AFFAYROUX. Yes, sir.

The CHAIRMAN. Is he also on Social Security?

Mrs. AFFAYROUX. Yes, sir.

The CHAIRMAN. So, we are talking about $597 for rent and utilities and then roughly another $160 for the insurance, combined life insurance and Blue Cross-Blue Shield. It leaves you roughly $250 then for all other expenses, including food?

Mrs. AFFAYROUX. Yes, sir.

The CHAIRMAN. That is a very small amount.

Mrs. AFFAYROUX. Tell me about it.

The CHAIRMAN. Are you drawing on savings?

Mrs. AFFAYROUX. No, sir. I have no savings whatsoever.

The CHAIRMAN. And your husband?

Mrs. AFFAYROUX. No, sir.

The CHAIRMAN. So, we're talking about just day-to-day, month-to-month operation.

Mrs. AFFAYROUX. Yes, sir. I belong to a senior center. We have our lunch at the senior center because it's only 75 cents apiece for lunch. And a lot of times we'll just do with a bowl of soup for supper. We eat no breakfast. Our big meal is generally on Sunday when I do spend a little bit more for maybe meat or something to have a big meal. Otherwise we do very little in the way of food, buying groceries. I mean I can't afford to buy meat at $1.99 a pound. A pound isn't very much for two people.

The CHAIRMAN. Mrs. Affayroux, you told us you do not have to have any medication.

Mrs. AFFAYROUX. No, sir.

The CHAIRMAN. Nor your husband?

Mrs. AFFAYROUX. No, sir.

The CHAIRMAN. Would you describe your health as very good, or are you——

Mrs. AFFAYROUX. I'm worried if I might get sick how am I going to afford it. I need a tooth pulled, and I wouldn't dare to go to the dentist because when I used to get my tooth pulled long ago it was $5. Now I know it is up to about $60 or $70 to get a tooth pulled.

The CHAIRMAN. And you think you need that type of dental care now?

Mrs. AFFAYROUX. I sure do. I have a tooth that is just a shell in my mouth, and every once in a while I get a twinge, and I keep my fingers crossed that it won't get any worse.

The CHAIRMAN. You're not going to the dentist because you can't afford to, simply put.

Well, I find this all very deplorable. I don't call this Golden Years, and I don't suspect either yourself or your husband refer to your retirement as Golden Years.

But might I compliment you. You are a very pretty 71 year old lady.

Mrs. AFFAYROUX. Well, thank you. And I would like to say this. Like I said, I belong to a senior center. And we have people up to 80 years old come in there. It's run five days a week just to have them someplace because it's not good for seniors to sit home and get into a state of depression. You would be surprised at how many of them we give food to take home because they do not have the money to buy the food. We give them a three day supply of food to last them until maybe they get a check. Maybe their daughter or somebody might bring some groceries around.

I mean, I am thankful that I have not reached that stage, and I hope the Lord I never will. But it breaks my heart to see all these people that worked so hard bringing up their families and everything, and today they just are living for charity from what they get from Social Security.

When we started with Social Security, our salaries were very low. I remember my first job was $18. That was right before Social Security came into effect. I thought I was rich. I was a millionaire. I had $18 a week. The kids today—they go out and start work—$125, $150. It's wonderful. I know their dollar isn't worth—practically they don't have any more than what I had, but in terms of Social Security, it shows up much bigger than my $18 did. The ones our age—we retired with the low income bracket. Today's bracket is much higher. They'll start out—most of them will start out on more than what we are getting right now, which we've been getting for about six or seven years.

The CHAIRMAN. Thank you very much for your testimony.

And might I say, I want to compliment your senior citizens center for their compassion and their understanding in providing additional food supplies for those that need it to take home with them. I very much encourage that. We do have plenty of food in this country, and distributing that surplus in abundance through the senior citizens center is one of the most fruitful things we can do with that food.

Thank you very much.

Senator Reid.

Senator REID. Mr. Chairman, I too have listened with interest to this testimony, and I have been reminded of a couple of things. We hear so much negative, and there is a lot of negativeness to go around. But I think you mentioned something that is of positive note. It doesn't matter whether it's in Montana, Wyoming, Nevada, New York, Nebraska, wherever it is, there are programs set up all over this country to provide people with at least one meal a day. I know in the little town where I was raised, in the southern tip of

Nevada called Searchlight, they even have a senior center where prople come and have one hot meal a day. And that's good.

And I think that's something, Mr. Chairman, that we might want to in the future examine to find out how the coverage is on those meals. My experience has been that they are a lifesaver for many people, not only from the standpoint of getting a good, square meal at least five days a week, but also from the social standpoint that you mentioned. It forces people out of their homes and into the community.

When I practiced law, I had a medical malpractice case in which I represented a woman who was injured badly. She received a fairly decent award, but she was blind. Her husband found that taking her to this senior citizens center every day was really a lifesaver for her because she got out and was able to talk to people, and it has prolonged her life.

So, I'm glad you mentioned that. Even though we see a lot of doom and gloom, that is one positive thing that I think has developed in this country the last decade or so.

You also mentioned something that is interesting that I'm sure the Chairman will look into, and that is you're concerned about not having enough money to bury you and your husband. Isn't that something that you mentioned in the statement that you gave to the staff?

Mrs. AFFAYROUX. Yes, sir. I pay $67 a month on two life insurance policies. My husband's is only for $1,500, and mine is for $2,700. My husband's is lower because, like I said, he had two heart attacks, and they will not give him any extra insurance. And I've come to the conclusion that when I'm gone, the only thing left to do is to be cremated because we sure can't afford an undertaker, not at the prices that they're charging. And even cremation has gone up. I think it started at $350. It's up to $570 now. Everything just keeps going up. Nothing comes down.

Senator REID. I have no further questions.

The CHAIRMAN. Senator Simpson.

Senator SIMPSON. Mr. Chairman, I recall my work on the Veterans Affairs Committee for some time as Chairman and then ranking member. We get into an issue with veterans or aged population, and if you ask any questions at all or are a little too heavy, you are a "poop." And I don't want to do that. But we have to, I think, be very careful and see that we take care of people like this lady.

I too have been to senior citizen centers, and have found there having lunch people who winter in Sun City, Arizona, who pay the minimum possible fee for lunch. I think I see you nodding your head. Is that not correct?

Mrs. AFFAYROUX. Yes, sir. It's 75 cents for us.

Senator SIMPSON. And they have a winter place where they go to. I don't think that's right. I just want to say that. And somewhere we have to do the sorting here to see that we get it right. It's the same with veterans. There are 28 million veterans. I am one. And yet, only 2 million and a half ever heard a live round go by their head in combat. We should take care of those combat veterans with the maximum that this country can provide. But surely someone

who served 180 days and never left the United States is in a lesser category. That's the way it is.

I am ready to do any and all things required.

I practiced law like Harry in a small town. And I remember in the 1970's my elderly clients came in and said look at this check from the Social Security. What do you think of that? I said, I don't have any idea what I think about it. It was up 12 percent, 14 percent. I thought, well, that's quite a system. I didn't get any letters from anybody about that. It was all distorted and out of whack. And it may be out of whack now—too little, under-indexing. But surely there was a period of over-indexing. And we never heard from anybody. Now, it's our job to get that straightened out in the middle.

But I can tell you. You know, I've learned. I must be perverse. But somewhere along the line there is a reality about people who take advantage and who can afford—and there ought to be a means test in my mind in Medicare. I don't see anything wrong with that. It is costing us 79 billion bucks. Medicaid is 42 billion bucks. The budget this year is $1 trillion. We are not just a pinched lot in Congress. We put up a tremendous budget.

I'm ready to do that again, ready to assist each and everyone of these people that are here today, but not quite ready to do that for people who deed their homes to their grandchildren or to their children so that they can meet the test of various benefit systems. People used to come to my office to do that, and I'd say you're going to have to find another lawyer somewhere to do that with. That ain't me. And they would. Deed the home, fit within the categories, have a place down in some sunnier clime, come home, use the senior citizen center, pay 75 cents when they could have paid 5 bucks and 75 cents so you could take more food home for the people the Chairman speaks of—and they do. That's the way it really is in the world. That part of it is there too.

I see you shaking your head. Do you agree with what I'm saying?

Mrs. AFFAYROUX. Sure I do.

Senator SIMPSON. Well, good. You are a bright lady. And I admire what you're doing. It takes some courage to come here for you and Mrs. Thompson and our next witness, Mrs. Fleming.

But somewhere along the line, if we're just going to listen to the shrill voices and those who appeal to emotion, fear, guilt, or racism—and that's what I've learned in this place in years, a fascinating adventure for me. You can either pass or kill a bill based on the use of a very deft blend of emotion, fear, guilt, or racism. Great place to work. Kind of a nutty arena really.

So, I just share with you—I'm ready to do my share, but I'm also ready to smoke out those who just use hype and hoorah and heavy stuff on us as if this Nation did nothing—because that's not correct. We're rather compassionate. Show us where the truly needy are and we'll produce. That's the way we are.

I admire you very much, and it's a pleasure to have you here.

Senator REID. Mr. Chairman, would the gentleman yield?

I think that some of the things you mentioned are right on point. For example, one of the things that this fine woman mentioned is dental care. Now, if we could take people out of the system that shouldn't be in the system, maybe we could do something to meet

that need. There's a real need for people to have dental care. And as you know, the coverage for that is very, very limited. When we hold hearings in that regard as I know the Chairman wants to, that's an area we might examine. What would we need to trim and cut other places so people who are truly needy are able to get adequate dental care.

Mrs. AFFAYROUX. I'd like to make a remark, Senator Simpson. I agree with you. There is a lot of people that have that try to get more. They are the ones that you find that scream the loudest when their raises on Social Security are real low. The ones that don't have it—they never complain. They just take what they got and are thankful. But the ones that have it and they didn't get more, they have their Social Security. They have a pension or their husband has a pension. They're always complaining because they are not getting enough. But the ones that don't get enough never open their mouth.

Senator SIMPSON. Well, that's a very true statement, and I certainly concur. I thank you.

The CHAIRMAN. Mrs. Affayroux, in the senior citizen center in Baltimore that you visit I take it generally four or five times a week——

Mrs. AFFAYROUX. Every day.

The CHAIRMAN. Every day that it's open.

Mrs. AFFAYROUX. Eight hours a day. I do eight hours volunteer work a day there.

The CHAIRMAN. Every day it is open, five days a week.

Do you consider yourself and your husband sort of in the middle strata there? You're independent. You have enough to survive on, and that there are some poorer and some more affluent.

Mrs. AFFAYROUX. There are quite a few that have much more, and there's a few that have less. And I mean less.

The CHAIRMAN. Less than what you have.

Mrs. AFFAYROUX. Yes.

The CHAIRMAN. So, you're sort of in the middle strata.

Mrs. AFFAYROUX. Right.

The CHAIRMAN. And your testimony is all the more meaningful.

Mrs. AFFAYROUX. And we are a nonprofit organization. We are funded by—we get Title III funds for our organization, which we get $39,000 a year, which is just a drop in a bucket for the many different things that we try to do. We have nurses come in to take blood pressure for the people. I guess if we give them good—we have classes for them to keep them occupied. We have people that are released from the hospitals with depression or what have you. Then the hospitals will call us and ask us if we can take them. We could take so many more and help so many more if we had transportation to get them there.

We have no senior housing in our neighborhood. There are some senior housing, but they're all mostly in the other direction. So, we have to pay the same price for rent that other people pay. Ours is an old neighborhood. Where I live it's over 100 years old. The people there have always—they don't move very often. They've lived there all their lives.

And they're the kind of people that don't ask for anything. They'll do without. Like I said, they'll ask us for food. Maybe they

won't even ask us. A neighbor or somebody will tell us that they need food in their house, or that they're in their home. They haven't been seen for a couple of days. They won't come out the door or anything. And we do everything possible that we can to help these people as much as possible. We've tried finding home-sharing.

But again, like I said, the people there are close together and they will not accept strangers in their house. So, it's a little hard to do that. But we're still trying to do all we can, as much as we can for all the seniors that are in our neighborhood.

We have a catchment area that runs from the—no, not the expressway. Anyway, it runs from the county line on the north and east, Erdman Ave. on the south and Hillen Rd. on the west. We cover a large distance, and it's a lot of people. Believe me.

The CHAIRMAN. Would you tell us your estimate of how many senior citizens that your center does serve in the course of a year?

Mrs. AFFAYROUX. Well, in the course of a month we serve about—in some shape or another about 1,000.

The CHAIRMAN. And the expense—is it borne by some Federal money?

Mrs. AFFAYROUX. The rest of it is all fund raising. We're always doing fund raising trying to raise money.

The CHAIRMAN. So, except for the $39,000 and whatever commodities are donated from the Federal Government, all the rest is volunteer?

Mrs. AFFAYROUX. Yes.

The CHAIRMAN. Volunteer contributions or from city or state.

Mrs. AFFAYROUX. We do get something from the state. Every once in a while they will send us a notice that they might have $1,000 to give us or they might—well, right now they said they had $12,000 that we could use for helping to remodel the place because we have a couple of ceilings that are going to come down if we don't soon do something.

All right, thank you very much, Mrs. Affayroux.

Our third witness this morning is Mrs. Margaret Fleming from Fork Union, Virginia.

STATEMENT OF MARGARET FLEMING, FORK UNION, VA

Mrs. FLEMING. Well, I certainly don't have the number of people that the lady that just left. But I live out in the country where it's very thinly populated and about five or six miles from the stores.

I live alone since my husband died and our adopted son was married. My husband has been dead for 11 years, and my son has been married for about 8 or 9. And I get $474 a month, and that's all the income.

My medicine bill runs $50 over a month, and my phone bill is like $35 or $40. And I pay the oil bill on a budget plan of $50 a month for 10 months of the year. And I have a life insurance policy for $1,500, which runs around $20 a month. And Medicare extended is $68.20. I'm trying to keep from having to call on somebody else for help. My electric bill runs around $35, $40.

And I have a certificate in the bank where I purchased this certificate with a paid-up insurance policy. It's $1,096. And I own my own home. And I pay about $270 a year taxes.

I don't know what else I can tell you about the country. I know I wouldn't live in the city unless I had to.

The CHAIRMAN. Your taxes are about $25 a month roughly.

Mrs. FLEMING. I never figured it out that much, but it runs right around $270 or better.

The CHAIRMAN. What about upkeep for the house?

Mrs. FLEMING. Well, it needs a lot of upkeep right now, but I can't afford it.

The CHAIRMAN. You have described between your prescriptions, phone, your insurance and the rest of your bills—you have described about close to $300 or a little over $300 in monthly expenses that you can't avoid. The rest of it then, if it's around $150 to $170 then, is what your remaining disposable income is. Can you eat off of that?

Mrs. FLEMING. Well, it's kind of tight going sometimes. I can eat off of it I guess.

The CHAIRMAN. I'll say it's very tight.

This is the kind of situation that we're looking at directly this morning. What was your reaction in the first of the year on the increase? You got about a $5 a month——

Mrs. FLEMING. Well, the last increase—I was getting for I don't know how many years. I got $470. And when I got the increase, it was $474.

The CHAIRMAN. So, it was just four bucks?

Mrs. FLEMING. And this is insurance drawn on my husband's working, his Social Security.

The CHAIRMAN. It's his Social Security.

Mrs. FLEMING. Yes. I stayed home and tended children. I raised six children. I have 6 children and 16 grandchildren. By Christmas I'll have 6 great grandchildren.

The CHAIRMAN. Well, the facts are that while your husband was working, you were contributing very significantly to his input.

Mrs. FLEMING. I had any number of foster children that I raised. I got $40 a month for their care and board?

The CHAIRMAN. Care and board?

Mrs. FLEMING. Yes. That was back many years ago. I haven't had any recently.

The CHAIRMAN. A service rather than a profit making venture.

Mrs. FLEMING. One time they brought me five children at one time in one family. That was kind of a shock.

The CHAIRMAN. Thank you very much, Mrs. Fleming.

Senator Reid.

Senator REID. Do your children help you financially?

Mrs. FLEMING. When they can, but it's nip and tuck for anybody to make a living these days. They are all working.

Senator REID. You don't have an automobile?

Mrs. FLEMING. No, sir.

Senator REID. Is there a doctor near the rural area where you live?

Mrs. FLEMING. The doctor that I go to is five miles away.

Senator REID. And how about when you need prescription drugs? Where do you get those? How far away is that?

Mrs. FLEMING. The same distance.

Senator REID. Who is it that takes you there?

Mrs. FLEMING. Well, whoever is free at the time and can go.

Senator REID. How close do you live to other people?

Mrs. FLEMING. From where?

Senator REID. Are you in a small town? Are there homes all around yours?

Mrs. FLEMING. No, right in the country.

Senator REID. There are no homes around yours?

Mrs. FLEMING. Oh, there's one on the left of me about 300 yards, and one across the road. But other than that——

Senator REID. You've indicated that you have trouble making ends meet sometimes. Is that right?

Mrs. FLEMING. Yes.

Senator REID. How about food? Do you have enough food all the time?

Mrs. FLEMING. Not all the time, but most of the time.

Senator REID. How far is the grocery store from your home?

Mrs. FLEMING. Same distance, about five miles.

Senator REID. Five miles?

Mrs. FLEMING. To the village.

Senator REID. Do you raise any of your own chickens or anything like that?

Mrs. FLEMING. Not on my own, no.

Senator REID. Dental care? Do you ever go to a dentist?

Mrs. FLEMING. Not very often.

Senator REID. Have you been in the hospital in the last five years?

Mrs. FLEMING. I don't know how long it has been.

Senator REID. When you go, you have to pay a deductible on your Medicare. Are you aware of that?

Mrs. FLEMING. I have to. Yes, I go to have checkups because I had radiation and so forth in 1970 and 1971. And I have to go for yearly checkups.

Senator REID. I have nothing further, Mr. Chairman.

The CHAIRMAN. Senator Simpson.

Senator SIMPSON. Mrs. Fleming, you say you own your own home?

Mrs. FLEMING. That's right.

Senator SIMPSON. Is that a farm?

Mrs. FLEMING. It's small. It's 26 acres maybe.

Senator SIMPSON. That is in your name?

Mrs. FLEMING. Yes, sir.

Senator SIMPSON. And then you indicated that you pay a sizeable amount per month for life insurance.

Mrs. FLEMING. Do what?

Senator SIMPSON. Life insurance.

Mrs. FLEMING. It runs around $18 or $19.95 a month.

Senator SIMPSON. Is that on your life?

Mrs. FLEMING. On my life.

Senator SIMPSON. And the beneficiaries are your children?

Mrs. FLEMING. Yes.

Senator SIMPSON. Might I ask what is the amount of that policy?
Mrs. FLEMING. I hope it's enough to bury me. I don't know.
Senator SIMPSON. It's a small policy.
Mrs. FLEMING. Small part of it I'm sure.
Senator SIMPSON. And you pay the premium.
Mrs. FLEMING. I pay that myself.
Senator SIMPSON. Well, indeed it is a struggle. And you are the people that we are looking to assist. And I think we're going to have to do that, and do that carefully, and assure that those who fall outside our net of care—and I don't like to use the "safety net" term. I think that was misused and might have been misguided as to avoiding perhaps some responsibilities. So, "safety net" I would leave out.

But in any event, I thank you very much.

The CHAIRMAN. Mrs. Fleming, your home and the 26 acres—do you realize any income off of the 26 acres?

Mrs. FLEMING. None. Not for the last 20 years I don't think.

The CHAIRMAN. Thank you very much, Mrs. Fleming, for coming here today and for your testimony.

Mrs. FLEMING. Well, I appreciate the privilege of coming. Maybe it will help somebody.

The CHAIRMAN. It is our privilege to have you, and indeed you will help somebody.

The three witnesses that we have had this morning happen to be all women, and that is rather typical when we look for witnesses to testify. Elderly women are usually the population who are shouldering the heaviest burdens of growing old. The witnesses this morning come from Michigan, Maryland and Virginia, and come from metropolitan areas as well as, in Mrs. Fleming's case, come from rural Virginia.

We are not looking for the unusual. We are looking for the usual. And we know that on one side of the spectrum that there are happier days and more pleasant living for some older Americans, and on the other side there are too many poor elderly who are living in unacceptably dismal situations.

So, this completes our direct testimony from witnesses who are the retirees that we seek to help this morning by receiving testimony to help us develop a consumer price index that reflects the true inflation rate that older Americans face.

Now, we will go to the other side of it and listen to experts. The first expert—and indeed, he is an expert—is Dr. Arthur Flemming who is co-chair of the Save Our Social Security Organization.

Dr. Flemming, please proceed.

STATEMENT OF ARTHUR FLEMMING, CO-CHAIR, COALITION TO PROTECT SOCIAL SECURITY

Dr. FLEMMING. Mr. Chairman, members of the committee, thank you very much for providing me with the opportunity of appearing before your committee to discuss the development of a consumer price index for older persons.

I am delighted that the Senate concurred unanimously in your recommendation, Mr. Chairman, that the Department of Labor develop a consumer price index for the elderly. Older persons have

expressed their concern to me regarding this issue from the time I began serving as U.S. Commissioner on Aging right down to the present.

Like many of those who have talked to me over a period of years, I'm not a professional statistician. Like them, however, I have felt that the index which has been and is being used does not reflect as accurately as it should the experiences that many older persons are having as consumers.

I have been especially concerned about whether or not it reflects accurately our experiences in the area of health care. In light of the major role that the index now being used plays in determining the income of older persons, I believe it is important to confront head on the feeling on the part of many older persons that the index leads to their being treated unfairly in connection with Social Security cost-of-living adjustments.

The issue, it seems to me, must be put on top of the table and dealt with in the best way of which we are capable as a government. Otherwise it will continue to be a festering sore contributing to an undermining of faith in the ability of our government to be fair.

I have had the opportunity of being well-acquainted with the work of the Bureau of Labor Statistics over a period of 50 years. I have the highest regard for the high standards of performance the commissioners of labor statistics have set and maintained over this span of time. Our nation is deeply indebted to that and to their associates for the services they have rendered. The Bureau, it seems to me, has the capability of implementing the amendment in the supplemental appropriation bill which calls on them to develop a consumer price index for the elderly.

I know that those who recognize that something should be done to improve the present situation are divided as to the best method to follow. There are those who argue that we could achieve the objective of having an index that will be regarded as fair by reweighting the data already available. Others believe, however, that we need a more comprehensive study which would yield more reliable figures and information than we now have about the purchasing habits of older persons. Having become acquainted with the arguments on both sides of this particular issue, I lean in the direction of favoring a comprehensive study.

I like Senator Melcher's amendment to H.R. 1827 because it calls for action on an issue concerning which there has been a great deal of talk for many years.

I believe the action that is taken should be based on figures and information which will command the respect of those whose future income will depend on the index which becomes available. If we achieve this objective, we will help to replace a feeling of skepticism on the part of many of our citizens who are a part of our Social Security system with a feeling of confidence.

The AFL–CIO, Mr. Chairman, has filed with your committee a statement on this matter. And I like their concluding paragraph, and would like to associate myself with it.

It reads as follows:

> In truth there can be little question as to the fact that expenditure patterns for older age groups differ from those of the working population whose expenditures

dominate the present price index. A special index for the elderly which reflects their specific buying patterns will command much more confidence among them than either of the present indexes can do.

We think this will be true regardless of whether the index for the older population moves up more or less than the overall indexes over any particular periods of time. This is an important consideration for programs affecting so many millions of people. In other words, we need to get it on a sounder factual foundation, and then let the chips fall where they may on the basis of the facts.

Thank you, Mr. Chairman.

[The prepared statements of Dr. Flemming and the AFL-CIO, and the letter from Mr. K. Gary Sherman follow:]

OUTLINE

BY

ARTHUR S. FLEMMING
CO-CHAIR, COALITION TO PROTECT SOCIAL SECURITY (SOS)

I. Introduction

A. I appreciate the opportunity of appearing before the Senate Committee on Aging to discuss the development of a consumer price index for older persons.

B. I am delighted that the Senate concurred--unanimously--in your recommendation, Mr. Chairman, that the Department of Labor develop a Consumer Price Index for the elderly.

II. Body

A. Older persons have expressed their concern to me regarding this issue from the time I began serving as U. S. Commissioner on Aging right down to the present.

1. Like many of those who have talked to me over a period of years I am not a professional statistician.

2. Like them, however, I have felt that the index which has been and is being used, does not reflect as accurately as it should the experiences that many older persons are having as consumers.

3. I have been especially concerned about whether or not it reflects accurately our experiences in the area of health care.

B. In light of the major role that the index now being used plays in determining the income of older persons, I believe it is important to confront head-on the feeling on the part of many older persons that the index leads to their being treated unfairly in connection with Social Security Cost of Living Adjustments.

1. The issue must be put on the top of the table and dealt with in the best way of which we are capable.

2. Otherwise, it will continue to be a festering sore contributing to an undermining of faith in the ability of our government to be fair.

C. I have had the opportunity of being well acquainted with the work of the Bureau of Labor Statistics over a period of fifty years.

1. I have the highest regard for the high standards of performances that Commissioners of Labor Statistics have set and maintained over this span of time.

2. Our nation is deeply indebted to them and to their associates for the services they have rendered.

3. The Bureau has the capability of implementing the amendment in the Supplemental Appropriation Bill which calls on them to develop a Consumer Price Index for the Elderly.

D. I know that those who recognize that something should be done to improve the present situation are divided as to the best method to follow.

1. There are those who argue that we could achieve the objective of having an index that will be regarded as fair by reweighting the data already available.

2. Others believe, however, that we need a more comprehensive study which would yield more reliable figures and information than we now have about the purchasing habits of older persons.

3. I would favor the comprehensive study.

III. Conclusion

A. I like Senator Melcher's amendment to H.R. 1827 because it calls for action on an issue concerning which there has been a great deal of talk for many years.

B. I believe the action that is taken should be based on figures and information which will command the respect of those whose future income will depend on the index which becomes available.

C. If we achieve this objective we will help to replace a feeling of skepticism on the part of many of our citizens who are a part of our Social Security system with a feeling of confidence.

87-33

Submitted Statement of the
American Federation of Labor and Congress of Industrial Organizations
to the Senate Special Committee on Aging
on Creating a New Consumer Price Index for the Elderly

June 29, 1987

The AFL-CIO is pleased to support the initiative that has been taken by the Chairman of this Committee to create a special Consumer Price Index for the elderly.

Such an index has long been needed, and the AFL-CIO has long favored it.

The importance of a price index that will directly reflect the impact of inflation on our older population is obvious -- especially because of the inflation adjustments mandated for benefits under the Social Security system and other Federal retirement systems. The Social Security system alone has 37 million beneficiaries, of whom some 85 percent are age 60 or over.

The Present Indexes

Neither of the presently available indexes is suitable for indexing the benefits of an older, primarily retired population. This is because the present indexes do not reflect the buying patterns characteristic of this group and so may mis-state the inflation rate appropriate for benefit escalation.

The Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) includes only a working population, primarily in middle and younger age groups. The retired population is not covered at all in this index -- although it is the one currently in use for Social Security beneficiaries.

The Consumer Price Index for All Urban Consumers (CPI-U) does include the aged and retired, but their particular buying patterns are drowned out by those of the overall population. The latest Consumer Expenditure Survey from the Bureau of Labor Statistics shows that as of 1984, consumer units with a "reference person" aged 65 or over accounted for less than 12 percent of total expenditures. This occurs despite the fact that in terms of numbers, the elderly units made up 18.6 percent of all units. In the Consumer Price Index, it is the expenditures that count. They form the basis of the relative importance (weight) in the total index for every item in it.

The Consumer Expenditure Survey

The BLS Consumer Expenditure Survey (CEX) provides the basic materials from which the price indexes are drawn up. It is not really a guide to index weights as they are finally computed for price index purposes, but it does give a good indication of differences in buying patterns for different groups. In particular, it can be used to show how the expenditures of households headed by persons aged 65 and over differ from those of the general population. For our own analysis we have used the 1984 CEX Interview Survey. (See Attached Table.)

Most striking, perhaps, are the higher percentages of the consumption budget spent by the aged on three categories of necessities: (1) food, (2) fuel and utilities, and (3) health care.

Of total expenditures for goods and services, 19.5 percent went for food in the older group as against 17.8 percent for all consumer units. Twelve percent went for fuels and utilities among the age 65 and over units, as against 8.8 percent for all households. And 11.1 percent went for health care in the older group as against only 4.7 percent for the total. At age 75 and over the percentage spent for health care approached 15 percent.

The two major categories in which the older group had smaller percentages of expenditure were shelter (17.7 percent as against 19.7 percent) and transportation (19.0 percent vs. 23 percent). For transportation, the outlays for vehicles, auto finance charges, gasoline and motor oil, and maintenance and repairs were all at smaller percentages, while auto insurance was a shade higher. There was also more use of public transportation in the older units.

Among the smaller expenditure categories, older units made relatively more use of domestic service and personal care services as well as slightly larger outlays for reading. But they had lesser percentages for housefurnishings and equipment (especially furniture); and for clothing, entertainment, education, alcohol, and tobacco.

In truth there can be little question as to the fact that expenditure patterns for older age groups differ from those of the working population, whose expenditures dominate the present price indexes. A special index for the elderly, which reflects their specific buying patterns, will command much more confidence among them than either of the present indexes can do. We think this will be true regardless of whether the index for the older population moves up more or less than the overall indexes over any particular periods of time. This is an important consideration for programs affecting so many millions of people.

The AFL-CIO is, therefore, glad to endorse the creation of a special Consumer Price Index for the elderly.

CEX Interview Survey 1984

	All Units	Age 65 & Over	Age 65-74	Age 75 & Over
Number of units(000)	74,884	13,920	8,312	5,608
Income before taxes	$24,578	N.A.	$16,815	$12,442
Income after taxes	$21,908	N.A.	$15,726	$11,492
TOTAL EXPENDITURES	$21,788	$13,989	$15,873	$11,196
Deduct:				
Cash contributions	$740	$809	$762	$878
Personal insurance & pensions	$2,023	$557	$778	$229
Life & other pers. ins.	$302	$166	$220	$86
Retirem., pensions, Soc. Security	$1,721	$390	$558	$142
EXPENDITURES, GOODS & SERVICES	$19,025	$12,623	$14,333	$10,089
(Percent)	100.0%	100.0%	100.0%	100.0%

CEX Interview Survey 1984

	All Units	Age 65 & Over	Age 65-74	Age 75 & Over
Food	17.8%	19.5%	19.8%	19.0%
At home	12.3%	14.6%	14.4%	15.0%
Away from home	5.5%	4.9%	5.3%	3.9%
Alcoholic beverages	1.6%	1.1%	1.2%	0.9%
Housing	34.8%	35.6%	33.8%	39.4%
Shelter	19.7%	17.7%	16.6%	20.0%
Owned dwellings	11.5%	9.7%	9.6%	10.0%
Mortgage interest	7.1%	1.7%	1.9%	1.2%
Property taxes	2.3%	4.1%	4.0%	4.2%
Mtce, reprs, ins.,etc.	2.2%	4.0%	3.7%	4.6%
Rented dwellings	6.2%	5.8%	4.4%	8.8%
Other lodging	2.0%	2.2%	2.6%	1.2%
Utilities, fuels, pub. serv.	8.8%	12.0%	11.5%	13.0%
Natural gas	1.8%	2.8%	2.6%	3.0%
Electricity	3.2%	4.1%	4.0%	4.2%
Fuel oil & other fuels	0.6%	1.4%	1.2%	1.9%
Telephone	2.4%	2.6%	2.5%	2.7%
Water & other services	0.8%	1.2%	1.2%	1.3%
Household operations	1.8%	2.4%	1.9%	3.5%
Domestic services	1.4%	1.9%	1.3%	3.1%
Other household exp.	0.3%	0.5%	0.6%	0.4%
Housefurn. & equipment	4.6%	3.5%	3.8%	2.9%
Textiles	0.5%	0.5%	0.5%	0.4%
Furniture	1.4%	0.8%	0.9%	0.7%
Floor coverings	0.3%	0.3%	0.3%	0.2%
Major appliances	0.8%	0.8%	0.8%	0.6%
Small appliances, misc.	0.3%	0.3%	0.3%	0.2%
Misc. equipment	1.3%	0.9%	1.0%	0.7%
Apparel & services	6.3%	4.5%	5.0%	3.4%
Men & boys	1.6%	0.9%	1.0%	0.7%
Age 16 & over	1.3%	0.8%	0.9%	0.6%
Age 2 to 15	0.3%	0.1%	0.1%	0.1%
Women & girls	2.5%	2.2%	2.4%	1.6%
Age 16 & over	2.1%	2.0%	2.3%	1.5%
Age 2 to 15	0.4%	0.1%	0.1%	0.1%
Children under 2	0.2%	0.1%	0.1%	0.1%
Footwear	0.7%	0.5%	0.6%	0.4%
Other apparel & serv.	1.2%	0.8%	0.8%	0.7%
Transportation	23.0%	19.0%	21.2%	14.4%
Cars & trucks, new (net outlay)	5.7%	5.0%	6.1%	2.5%
Cars & trucks, used (net outlay)	4.0%	1.8%	2.1%	1.1%
Other vehicles	0.1%	0.0%	--	0.1%
Vehicle finance charges	1.2%	0.5%	0.5%	0.3%
Gasoline & motor oil	5.5%	4.7%	5.3%	3.5%
Maintenance & repairs	2.4%	2.2%	2.3%	2.0%
Vehicle insurance	1.9%	2.0%	2.1%	2.0%
Public transportation	1.5%	2.2%	2.1%	2.4%
Rental, licenses, other chgs.	0.8%	0.6%	0.6%	0.4%
Health care	4.7%	11.1%	9.3%	14.7%
Health insurance	1.5%	5.0%	4.2%	6.5%
Medical services	2.4%	4.1%	3.4%	5.5%
Prescription drugs, med. supplies	0.8%	2.1%	1.8%	2.7%
Entertainment	5.5%	3.8%	4.2%	2.9%
Fees & admissions	1.8%	1.7%	1.9%	1.4%
TV, radio, sound equip.	1.7%	1.2%	1.2%	1.1%
Other equip. & services	1.9%	0.9%	1.2%	0.4%
Personal care	1.1%	1.5%	1.5%	1.5%
Reading	0.7%	0.9%	0.9%	0.9%
Education	1.6%	0.7%	0.6%	1.0%
Tobacco & smoking supplies	1.2%	1.0%	1.2%	0.6%
Miscellaneous	1.6%	1.2%	1.2%	1.3%

SOURCE: Bureau of Labor Statistics, Consumer Expenditure Survey (Interview) 1984. Calculation of overall totals for age 65 and over made by AFL-CIO.

JOHN ASHCROFT
GOVERNOR

MISSOURI
DEPARTMENT OF SOCIAL SERVICES
DIVISION OF AGING
P.O. BOX 1337
JEFFERSON CITY
65102

June 22, 1987

The Honorable John Melcher
United States Senate
628 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Melcher:

On behalf of the Missouri Division of Aging and our 920,000 older adults, I would like to commend your concern for our nation's senior citizens. Your farsightedness in addressing the burden that inflationary prices place on the purchasing power of older Americans will do much to improve the quality of life they have earned -- and deserve.

The Division of Aging (DA) shares your concern for the effects of rising costs on seniors. As you are aware, older adults frequently must live on fixed or limited incomes, and as a result are disproportionately effected by inflation. In addition, senior citizens spend a larger portion of their incomes on food, health care and prescription drugs.

In 1981, we addressed these problems with the creation of the Silver Citizens Discount Card (SCDC). Now a model for other states, the SCDC allows seniors who have enrolled in the program to receive discounts from participating businesses. These merchants volunteer to participate, individually setting their store's amount and type of discount -- including the percent, the items discounted and the day's hours the discount is effective. Not only does the senior citizen benefit through lower prices, but businesses have enjoyed increased sales to senior citizens as well as to their younger relatives.

We must all continue to work together to serve the needs of our increasingly older population. I am excited that our federal policymakers are taking action to see that older Americans are not forgotten.

Sincerely,

K. Gary Sherman
Director

The CHAIRMAN. Dr. Flemming, you have served the country in various capacities for well over 40 years, have you not?

Dr. FLEMMING. Yes, Mr. Chairman. I started to serve in the Federal Government as a member of the U.S. Civil Service Commission under President Roosevelt in 1939.

The CHAIRMAN. Well, let me say that as a citizen, I am very pleased, honored that we have people like you, Dr. Flemming, that serve the country. And I want to thank you for that.

Dr. FLEMMING. Thank you, Mr. Chairman. I appreciate it very much.

The CHAIRMAN. As a committee chairman, I want to thank you for your very clear and strong recommendation. I thank you for that.

Dr. FLEMMING. Thank you.

The CHAIRMAN. Senator Reid.

Senator REID. Dr. Flemming, how does the failure of the CPI to accurately measure the true inflation rate for retired persons affect the amount of benefits they receive?

Dr. FLEMMING. Well, it can affect it either way. I mean, if it does not reflect accurately an increase in cost of living, that of course means that they will not get the cost-of-living adjustment that is called for under the law. If the cost-of-living index errs in that it is on the high side, that means that they will get more than the law expects them to get under the cost-of-living provision.

That is what I like about the last paragraph in the AFL–CIO's statement. And I think I represent the feeling of many older persons. We're simply asking that there be a solid factual foundation for the cost-of-living index, and then we're perfectly willing to let chips fall where they may in terms of what that then calls for in the way of a cost-of-living adjustment.

Senator REID. If there isn't a new CPI system, what's going to happen? If it isn't modified, what effect is it going to have on retired people generally?

Dr. FLEMMING. Well, the principal impact that it has on retired persons is that they don't have confidence in the fairness of the present procedure. They just don't have confidence in the fact that the index now being used reflects accurately what is happening as far as their experiences are concerned.

And I think that is serious. This is a program that affects the lives of millions of persons. As we all know, as far as Social Security is concerned, there are 37 million checks that are going out. And I believe that we should make sure of the fact that the system operates in such a way that those who are under it, who are a part of it, have confidence in the way in which decisions are made. And at this particular point, by and large there is not confidence in the way in which the index is arrived at. And I think we can correct that.

It seems to me that the amendment to the independent office appropriation bill that the Chairman offered and that was adopted unanimously by the Senate would correct that situation. Whatever investment we need to make in order to correct it, it's a good investment to make.

Senator REID. Dr. Flemming, when we discuss the development of a new CPI for the elderly, we most often hear about a reweight

for the medical and housing components of the index to account for the unique needs and buying circumstances of the elderly. Is there anything else that should be included, or I should say emphasized, other than housing and medical?

Dr. FLEMMING. Well, I would be very much interested in the testimony from the Bureau of Labor Statistics on that particular question because they follow this very carefully. And as I indicated, I have a greal deal of confidence in their judgment.

But I certainly feel that some reweighting, if you want to use that particular term, is called for as far as medical expenditures are concerned. The testimony that you have listened to this morning deals primarily with the medical expenditures. That is an area that should be looked at very, very carefully.

And I'm perfectly willing to abide by the facts once it is looked at. But those facts are ascertainable, and I think the government ought to ascertain them and build them into the index.

The CHAIRMAN. Senator Simpson?

Senator SIMPSON. Mr. Chairman.

Dr. Flemming, good to see you, sir.

Dr. FLEMMING. Thank you.

Senator SIMPSON. I remember some very spirited testimony you shared with me in your other life with regard to the chairmanship of the immigration and refugee matters. You are a superb public servant, and I admire you greatly.

And I remember you and Father Ted Hesburgh worked closely together in your life with regard to civil rights. And he was my chairman on the Commission on Immigration.

Dr. FLEMMING. That's right.

Senator SIMPSON. You do emphasize—and you've emphasized it in your remarks and in your verbal testimony—that the issue is one of undermining the faith or the ability of our government to be fair. And I think that's true. And you speak of confidence in the system.

And let me share with you—and I know that this is tossed out quick off the edge of the boat because it is not comfortable to talk about it. But in town meetings that I have conducted—and I do a lot of that—we talk about confidence and fairness and undermining of faith in the system. And I see people who are 30 and 35 years of age who think that that is already long past, that they have no confidence in the Social Security system, no agreement that it will ever be fair for them.

What is happening to me now in those meetings, I listen to those people speak and then an elderly person, a senior citizen, will get up on the other side of the room and suddenly the combat is on. I just sit and referee then—which is a much more pleasant place to be—and they say, you know, you've got it rigged now so that if the payoff is made to those who are over 40 now, it will never be there for me.

And I'm fully aware that everyone will come right into this committee and say, that's not so. You're smoking something. We've heard it all. I know that.

But if there is one system in the United States on which we have received more goofy advice during the whole history of its existence, it's the Social Security system. We were told it would be sol-

vent at this certain point, and it wasn't. We were told that we need to fix at this certain point, and we did, and we gave to it. We had 37 people paying in when we started. In the 1950's it was about 17 people paying in and one taking out. Now, there are 3.4 people paying in and 1 taking out. And in 50 years there will be 2 people paying in and 1 taking out. And somebody tell me please how that will work without the most massive injection of funding from some source or creative bookkeeping—which we do so well here.

Now, that is the way it is. And I think that indeed when we talk about fairness and we get to the issue of those people who have worked only 40 quarters and are in for the long haul, you can go push the button in Baltimore and find out how much they have paid in and how much they have paid out. Some of them will knock your socks off. Now, that's the way it is. That's called real life too. And I always just like to blend in a little bit of balance into these things, but that is the way it is.

And my question to you, if the seniors are saying that there is a lack of confidence and an undermining of faith, what do you think is happening with regard to the 25 year old and the 30 year old as they observe this system?

Dr. FLEMMING. Senator Simpson, I spent a good deal of time in the last 15 years in traveling throughout the country and talking to audiences made up of all generations about the Social Security system. I also have had questions addressed to me along the line that you have just identified. I recognize that a few years ago when we had up the whole question of the COLA the issues that you have identified were discussed very frequently and very vigorously throughout the country.

Personally I believe that we have moved into a period where people have a much better understanding of our social insurance or Social Security program, and because they have a much better understanding of it, have a great deal more confidence in it.

First of all, they recognize that at the heart of the social insurance system or Social Security program was the decision over 50 years ago on the part of the Congress to pool our resources as a national community in order to, as President Roosevelt put it, deal with the hazards and vicissitudes of life.

The first hazard and vicissitude that we decided to deal with was loss of income to a family because of retirement.

Within four years the Congress decided to deal with another hazard and vicissitude, the one that grows out of loss of income because of the death of the member of the family on whom the family had been counting for income. As a result, survivorship became a part of our social insurance program.

While I was serving as Secretary of Health, Education and Welfare, the Congress decided to deal with still a third hazard and vicissitude, the one that confronts a family when the member of the family they have been counting on for income becomes disabled and is no longer able to work.

At that particular point, we had a social insurance program designed to deal with many of the hazards and vicissitudes that confront a family growing out of loss of income. The Social Security program is a family program, a family income insurance program designed to deal with those hazards and vicissitudes.

I have had the opportunity of working with the Congress and dealing with the Congress on this program over the years. I know of no program where Congress and the executive branch working together have acted in a more responsible manner than they have in connection with Social Security. When I was in office, the president under whom I served made some recommendations for increases in benefits and made the recommendation for eliminating the age requirement on disability. Those recommendations were always accompanied by recommendations from the actuaries as to what should be done in terms of the payroll contribution in order to cover the additional costs. The Congress always responded to the recommendations of the actuaries.

It is true that in the 1970's or the latter part of the 1970's we got into a difficult cash flow situation growing out of the fact that for the first time and only time in our history as a Nation, we went through a period of high unemployment and high inflation, and that did affect the cash flow of the system. The Congress, acting on recommendations of a presidential commission, came to grips with those particular issues, and passed the amendments of 1983.

And on the basis of the action taken by the Congress in a very responsible manner, the actuaries do tell us that the trust funds underlying the retirement, the survivorship and the disability programs are on a sound actuarial basis projecting ourselves over a period of 50 to 75 years. The trust funds are building up under those recommendations. We are up to approximately $50 billion at the present time. By 1990 we will be up to $200 billion. By the turn of the century, we'll have $1 trillion. Those trust funds will build up to over $2 trillion before we start cutting into the trust fund because of the demographic changes that will be taking place in 2035. The actuaries have always taken into consideration the demographic changes to which you referred in your comments. They have been figured into the computations that they have made.

I say to the audiences that I address, if you're a member of my generation, if you're worried about the possibility of your continuing to get your Social Security check, strike it from your worry list. I say the same thing to my grandchildren. If you're worried about the fact that you're going to reach the point where you may need to draw on survivorship benefits or disability benefits or retirement benefits, and are concerned that you will not be able to draw on those benefits, strike it from your worry list.

This system is on a sound basis. The full faith and credit of the United States government is back of it. The Congress and the executive branch have entered into a compact on it, and we can rely on the fact that the Congress will live up to that particular compact.

It is an important issue. Any issue where people say they do not have faith in the ability of the government to live up to its word, to live up to the compact that it has entered into is not only an important issue, but the most important issue.

And that is one of the reasons why in my testimony here I put my finger on this question of people having faith in this part of the system. Here we've got a system for working out the cost of living, which is now a part of the Social Security system, which does not rest on a solid base. We can correct that, and we should correct it

in the interest of having people have more confidence in that particular part of the system.

But I believe, Senator, that as I look back over a period of 50 years, and now look down the road that we can take pride in the fact that our Nation has decided as a national community that we are going to pool our resources so that wherever anybody may live in this country, they can count on the fact that when they are up against the hazards and vicissitudes that are represented by loss of income because of retirement, survivorship and disabiliy, they can count on the fact that the benefits that are spelled out in those respective programs will be available to them.

It is one of the greatest accomplishments in the history of our Nation. And I think that we should be saying that to our young people.

SOS is right now engaged in bringing together people who will develop some educational materials that can be worked into the elementary and the secondary and post-secondary systems of our country so that people will have a better understanding of the basic concepts underlying our social insurance program and a better understanding of how those concepts have been implemented.

Senator SIMPSON. I thank you. You are good in your work, and I admire that. But the grandchildren are not listening. And I would share that with you, sir, and that they are not, not when they see what is occurring. And when the situation comes—and no one challenged this yet—when we get to the next mid-century, pay as you go will, I believe you said, "cut in." It will cut in. You bet it will cut in and it will be dramatic. But we are dealing with CPI's. My problem here is that I want to see that we don't get to a CPI or another one where we will use one, and if that isn't valid enough under the conditions and the times of the moment, we'll use another. And we want to be careful that we don't just go bouncing back and forth.

I think this is a great idea. We all voted for it, but I have——

Dr. FLEMMING. I agree with you completely on that.

Senator SIMPSON. I have some serious concerns about the young people in America and their ability to draw on Social Security. And it is not coming from me. It's coming from them. And they have not been mollified one whit.

Dr. FLEMMING. I am not out to mollify. Personally I feel that if we present the facts to them, they will have confidence in their future and the future of our country.

Senator SIMPSON. Thank you, Mr. Chairman.

The CHAIRMAN. Dr. Flemming, you have served under six presidents, both parties, the bulk of which I take it is in the highest capacity appointed by reformed Republican presidents. Your testimony is anything but partisan, and I——

Senator SIMPSON. I don't think I suggest that.

The CHAIRMAN. No, I know, Senator, you haven't suggested that.

I just think it adds weight to what you have said. It adds credibility to what you have said. And unlike Senator Simpson, at my town meetings in Montana when this same question comes up—is there going to be anything there 30 years from now or 22 years from now or 42 years from now—I attempt to give the facts on the

buildup of the trust funds just as you have done. But I'm afraid I'm not as knowledgeable and forceful and credible as you are, Dr. Flemming. But I think you have provided for this hearing some of the most excellent testimony that I have ever heard in regard to answering the question that Senator Simpson posed.

The fact is that Social Security is not just for this generation of elderly or the next generation. It is also for our grandchildren's and their children's generation. And lastly, Social Security is for all ages of people because it offers protection through its disability and survivors provisions.

I would like to point out, while Senator Simpson is here, we still have not addressed the problem that he earlier alluded to as a means test. Should that be brought into being in Social Security? We have never addressed that problem except to say no, we don't believe so. At some point in the future we may want to bring that part of the argument in.

Secondly, we are taxing ourselves on Social Security up to about $40,000. We could tax ourselves over that limit whatever we make. And we are not doing it. So, we do have other options to choose from.

And I'm confident that this generation made the right decision to build up the trust funds when it supported the 1983 Social Security amendments. I am confident of the system working after the year 2000. We are going to look at it, and see what has to be done in order to keep those trust funds at a very healthy level.

So, I happen to be one that has great confidence in Social Security. I also happen to have some confidence in the rest of our retirement programs, including military, including railroad retirement, including those for Federal workers, and also in the private sector. Whatever policy we're adopting for retirement years is going to be a more enlightened one in the future than we have had in the past. These three witnesses that have testified to us today are not living in Golden Years. They are living in hardship. I think we are going to do—out of necessity and compassion—much better with the balance of this century and on into the next century.

Senator Simpson, forgive me for sort of preaching to you. I don't intend to do that. I guess I just come on rather strong.

Senator SIMPSON. I like that too.

And let me say that the retirement programs you mentioned will all be affected by what we do here. Don't anybody miss that. Don't anybody miss the fact that what we do here with Social Security will kick in with every other one of these programs. So, when you're keeping the score, and adding up the tab—and I don't know what the cost of this will be, but every single one of those other programs will fit exactly in this, and we will not be able to turn that tide.

And one other thing. The Social Security system—and you, sir, were in the beginnings of it—was an income supplement. That's what it was. And then let me finish. Medicare is in crisis, and watch what we do. And no one is saying that that is going to be good in 10 years. They are all saying you got to do something with Medicare or you have busted the bank at Monte Carlo.

Well, good heavens, under part B it was originally supposed to be 50 percent paid in by the beneficiary, 50 percent by the govern-

ment. It is now 75 paid in by the government, 25 percent by the beneficiary. We tried to change it one percentage point a few years ago, and the mail room broke down. So, as long as the organizations in America keep pulling the chain on us, we will want to respond, but we won't because it gets to be pretty heavy lifting when various groups in the United States just simply push the mail button in Virginia and here it comes.

Dr. FLEMMING. Mr. Chairman and Senator Simpson, I have noted the comments on Medicare. In the interest of your time and the committee's time, I won't get into that, but there are proposals pending right now in the House of Representatives and also in the Senate dealing with some aspects of that. And Congressman Pepper, in fact, introduced a bill just a few days ago dealing with the whole question of payroll contribution or taking the cap off payroll contributions in the interest of financing certain parts of Medicare.

But Medicare is a very, very important issue. I think it deserves being discussed separate and apart from the retirement, survivorship and disability. And I can assure you that I would be very happy to discuss that at any time with the committee because it is very important in terms of dealing with what I feel is the number one domestic issue confronting us at the present time, and that is the whole issue of health care.

The CHAIRMAN. Well, I'm sure when we do discuss in this committee the Medicare costs, we will call on you, Dr. Flemming, to assist us and provide some advice.

We have a great deal of opportunity on what course we want to set this country on in terms of Medicare. And what is evolving now both in the House and the Senate is a discussion for the first time. Should there be a means test. Should there be more of a prepayment from those who can afford to pay it? I welcome this type of discussion.

I'm sure over the next year or two we are going to make some decisions on means-testing as we are determining what role it may play in assisting the Medicare Program finance catastrophic health care coverage. I think we are finding it may have a place. We also are biting the bullet on the types of coverage being considered in order not to drain the Medicare trust fund.

Dr. FLEMMING. Mr. Chairman, I feel that the hearings that you conducted on long-term care at the beginning of this session made a very significant contribution to our present dialogue.

The CHAIRMAN. Thank you very much, Dr. Flemming.

Senator SIMPSON. Mr. Chairman, thank you. And you know, we westerners, we mash around in it. That's part of our heritage, and when my neighbor from Montana speaks with good vigor, I like that. That's the way we do our business. And I thank you, Mr. Chairman.

The CHAIRMAN. I thank you very much, Alan.

Dr. Norwood is here from the Bureau of Labor Statistics. She has another appointment at noon, and so we are going to call on her right now. Please proceed.

STATEMENT OF JANET L. NORWOOD, COMMISSIONER, BUREAU OF LABOR STATISTICS

Dr. NORWOOD. Thank you very much, Mr. Chairman. I really appreciate the opportunity to appear here this morning on this issue which we believe is an extremely important one.

The Bureau of Labor Statistics, I want to emphasize, is anxious to support policymakers in any decisions that they make. My purpose here this morning is to point out a few of the technical issues that should be considered in any decision that is made.

The first of those issues is the need to define the term "older Americans" or "the elderly." Because the legislation referred to older Americans, that is the term that I've used in my testimony. Generally we are talking about the use of a consumer price index for a cost-of-living escalator for Social Security and other retirement benefits.

What I have done in my testimony is to define older Americans as those 65 years of age or older. I think it is important to note that older Americans defined as 65 and over is not the same as the retired population. Nor are older Americans the same as Social Security recipients. More than one-fourth of Social Security recipients are persons under the age of 65 receiving disability, dependent or survivor benefits.

I think it is also important to understand how the current consumer price indexes are calculated. We have two. The broader index, the CPI for all urban consumer units, which we call the CPI-U, covers about 80 percent of the population and prices the average market basket of all urban consumers.

The CPI for wage earners and clerical workers, the CPI-W, which currently is used for Federal Government entitlement programs for the most part and for Social Security escalation, reflects the average market basket of consumer units that have more than half their income from wage earners or clerical workers. The CPI-W actually excludes the retired from its expenditure weights. The CPI-W population now constitutes only about 32 percent of the national population.

Now, first, we really need to look at who are the older Americans. In the 1980 Census they comprised about 11.2 percent of the population, again using a definition, as I shall throughout, of 65 and over. That proportion has been growing and we project that it will be growing further in the future. Within this group 53 and a half percent live with a spouse, and another 28.8 percent live alone.

On average older Americans have annual before-tax incomes per household that are smaller than the incomes of the total population by about one-third. The average cash income for older couples is more than twice that of older individuals who are living alone. The income for the oldest of this group—that is, those 75 and over—is about one-fourth lower than for those 65 to 74. In addition, 63 percent of persons aged 65 to 74 live with a spouse, while only 38 percent of those who are over 75 do.

The proportion of older persons in the population differs by region. In the 1980 Census the range ran from a high of 12.8 percent in the northeast to a low of 10 percent in the west.

The expenditure patterns of older Americans differ from those of the population as a whole. To illustrate this point, Mr. Chairman, I have brought a few charts.[1] The first chart shows the proportion spent on selected items by three different types of consumer units: the average for all urban units, the blue bar on this chart; the average for those aged 65 to 74, which is the red bar; and the average for those aged 75 and over, which is in yellow on this chart. If you start at the bottom, you will see the most frequently cited fact, namely, that the relative share for medical expenses rises with age. Fuel and utility expenses also rise substantially, and grocery store food spending increases somewhat.

On the other hand, relative spending for the purchase of automobiles falls off. Gasoline purchases also decline, but not significantly until after age 75. Older Americans also spend relatively less for apparel, personal care items, and education.

Home ownership among the older population is higher than for the population as a whole, but home ownership declines by 5 percentage points after age 75.

These known differences in spending patterns have led some to speculate that the inflation experienced by older Americans may differ from that of the average urban population. During the double digit inflation of the late 1970's and early 1980's some speculated that the use of the CPI for escalation of Social Security benefits was overcompensating retirees. More recently there has been speculation that the lower rate of inflation shown in the official CPI may have been less than that for the older population.

Now, let me review with you very briefly what a CPI for older Americans really should be. Construction of an accurate CPI for older Americans would require five things, and the second chart lists those five things. The first requirement is information on expenditures by older persons for each of the approximately 200 item categories in the CPI—that is, rent, gasoline, men's pants, prescription drugs—in order to establish samples and relative importances of weights for the index. Because the older population is so small a proportion of the total, just a little more than 11 percent, the current consumer expenditure survey sampled for this group, unless augmented, would be only about one-tenth the size of that used for the CPI-U and about one-third that used in the CPI-W.

Second, we need geographic weights and distributions of prices to reflect where older persons live. The prices of items in areas where the older population lives may be quite different from the prices in other areas.

Third, we need samples of stores and other outlets where older persons actually make their purchases. These may, in fact, be quite different from those frequented by the general population and they may have different price trends.

I am reminded very much, Mr. Chairman, of my mother-in-law, who died recently at age 89, who lived in an apartment in downtown Boston, and who did most of her shopping, particularly her food shopping by telephone from a small grocery store nearby with delivery by them. When my husband and I visited her, we did a

[1] Charts start on p. 55.

great deal of shopping in the large supermarket that was many blocks away.

It seems to me very important for us to know how often the older population uses stores of that kind and services of that kind and whether there are, in fact, price change differences. We do not now have any information on that.

The fourth item needed is information on the varieties of items actually purchased by older people within each of the 200 CPI item categories. Older men purchase pants, for example, but they probably purchase a different proportion of designer jeans than does the population as a whole. Older persons also might buy a different array of prescription drugs.

Store managers can provide us this information for the general population for all of their sales, but they are not likely to be able to tell us the differences in items bought by older Americans. The only way to find that out is to ask the individual consumers themselves. Adding this level of detail to our existing consumption surveys, could be quite expensive.

Fifth, we need the prices actually paid by older persons. While the current CPI does incorporate the effects of changes in some senior citizen discounts, for example, and other special prices for specific age groups, an index specifically for older persons would need more extensive inclusion of these special prices and the proportions of them used by older Americans. I believe that some of the discussion that has taken place this morning about medical care also may involve some special pricing.

None of the research reports that I have seen on topics related to a CPI for older persons accounts for all five of these elements. All make some effort to adjust for differences in spending patterns among significant categories of consumption. There was a 1982 GAO study which reviewed other work and made some of its own calculations. It found virtually no difference between an index constructed from expenditures weights for a retiree population and the official CPI. GAO recommended that the Congress adopt the CPI-U rather than the CPI-W for escalating Federal transfer payments and that the BLS publish annually a special hybrid index reweighted by expenditures for the retired population.

Mr. Chairman, at that time and now the BLS disagreed with the recommendation to do nothing more than to publish such an index because it would deal, we believe, with only a small part of the possible differences between the two populations, and it could, therefore, be misleading. Reweighting by expenditures might move the index up or down, but it is entirely possible that the effects of geography, outlets, varieties and prices could more than offset the effects of that reweighting.

Almost every other piece of research on this subject has also shown that reweighting the official CPI would make very little difference over the long run. The most recent piece of research on this topic found the differences to be small. Looking at eight years of data from 1972 to 1980 for renters only, the study compared a reweighted price index for those 65 and over with one for the general population. The average annual difference between the two indexes was less than half of one-tenth of one percent.

Now, why are these differences so small? It is true that much of the slowdown in inflation last year came from radically lower gasoline prices, and it is also true that the older population buys less gasoline than the total population. But does this mean that the CPI understated the price changes experienced by the older population? Not necessarily.

Now, I have given you two other charts, and if you would look at those, they proved some indication of why the research studies have found that a simple reweighting of the CPI produces very little difference from the official measure. These charts relate to the approximate period over which the last Social Security cost-of-living adjustment was calculated.

The first chart shows the annual changes for four items that would be weighted more heavily in a CPI for older Americans. As everyone knows, medical care would be weighed more heavily, and the prices for it rose much more than average. The black vertical line is the change in the "all items" CPI, and you can see that the medical care block went up considerably more. Food and beverages would also be more heavily weighted, and they also had above average price changes. On the other hand, fuel oil and piped gas had significant price declines. And they too would receive more weight in a CPI for older Americans.

The final chart has the price changes of four items that would receive reduced weight in a CPI for older persons. As we all know, the price decline in gasoline was a major factor in the low inflation rate last year. That decline, coupled with the fact that gasoline is less important in the expenses for older persons, has suggested, naturally enough, that a reweighting would have yielded a larger average increase. But that partial analysis overlooks the fact that other items, like college tuition, entertainment services, and new cars, would also be weighted less in a CPI for older persons. As the chart shows, those three items rose well above the average rate. In fact, tuition rose more rapidly than did medical care costs.

Is it time for a CPI for older Americans? Let me preface my remarks by saying that if the Congress wants to adopt a policy, the Bureau of Labor Statistics as a service agency will do everything it can to carry out those policies.

But I hope that three things have stood out clearly from my testimony so far. First, we do not have available the data from which one could construct an accurate CPI for older Americans. Second, constructing such an index only from the data that are currently available might actually be misleading and reflect older persons' inflation rates less precisely than does the existing CPI-U. Third, research measures constructed with the data at hand show that indexes of price change for older persons differ from indexes for the general population only by small amounts, and that over the long run the differences nearly vanish. In addition, construction of an accurate CPI for older Americans would be expensive, and it would take several years to complete.

Nevertheless, we wish to be as responsive as we possibly can to policy needs, and so we have considered a number of possibilities. I would like to just very briefly refer to those.

First, if the Congress requested it, we could produce a simple, reweighted index but with somewhat more item and geographic

detail than used in previous research. We don't believe that that is likely to differ very much from the official CPI. And it would not, of course, be as accurate as the official CPI. Because it would be limited to existing consumer expenditure data, the sample for the elderly would be small and would have a much larger sampling error than the CPI-W. It also would not account for differences in outlets, items, varieties or prices paid by the elderly.

And so, if such an approach is undertaken, I would urge the Congress to consider coupling it with authorizing a research program which would include an expanded consumer expenditure survey, data collection, and research, which would give us an opportunity to look further at the outlets, at the items and to have a better idea of whether in fact these differences are large enough to warrent undertaking a full scale CPI program.

Let me say that one of the big costs for expanding the underlying surveys on outlets and expenditures is that the older American population is a small portion of the total. We estimate that our interviewers would have to probably go to eight households in order to find one that includes an older person to interview. That is not a very efficient method of data collection.

If legislation made it possible for us to draw samples of older Americans from the Social Security file and/or other retirement files, we would be able to expand data collection much more efficiently and much more cheaply. That is not now a possibility.

The third approach obviously is to pursue immediately a full scale CPI which would cover each of the five factors that I have mentioned. And that, Mr. Chairman, would take a number of years to develop since we would have to develop the basic survey data first and then develop the samples, and would cost many millions of dollars.

Currently most Federal transfer payments, including Social Security, are escalated by the CPI-W which excludes from its coverage those who have retired among others. The CPI-U, on the other hand, reflects the average market basket of all urban consumers, including older Americans. For this reason, GAO recommended in 1982 that Federal transfer payments be escalated with the CPI-U.

I might mention, Mr. Chairman, that the BLS and the administration many years ago in 1978, when we first developed the CPI-U, also made that recommendation. But currently it is still the CPI-W that is used.

Of course, the CPI-U is not an index for the older population. It includes within its universe not only the CPI-W universe and the retired population, but also many other types of consumer units.

Nevertheless, the greater inclusiveness of the CPI-U and the total absence of the retired population from the CPI-W are matters that ought to be considered very seriously.

Now, I hope, Mr. Chairman, that my comments have helped to clarify at least a few of the technical issues that are involved in developing a CPI for the elderly.

[The prepared statement of Dr. Norwood follows:]

STATEMENT OF
DR. JANET L. NORWOOD
COMMISSIONER
BUREAU OF LABOR STATISTICS
BEFORE THE
SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

June 29, 1987

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to review with you some technical issues involved in developing a statistical measure of price change for older Americans. As the interest of the Committee suggests, this is a question that is likely to become even more important as the proportion of older persons in our population continues to increase. The Bureau of Labor Statistics (BLS) is a service organization and we are prepared to assist, to the best of our ability, policymakers in the Congress and the Executive with relevant, accurate data and analysis. This morning I will describe a few of the technical matters related to measuring price changes faced by older persons and identify some options as I see them. I will, of course, be glad to address specific additional concerns which the Commitee may wish to raise.

Definition

The primary purpose of those who want a CPI for older Americans appears to be a desire to use a "cost-of-living" escalator for Social Security and other retirement benefits that is based on the price experience of these groups. But the first thing we need to do is to define precisely who are "older Americans." The definition of "older Americans"--and one's view of who should be included--may even differ with one's own age. Indeed, I have found my own attitude toward what we in the statistical system call "mature workers," i.e., 25 to 54 years of age, has changed considerably in recent years as I have found myself moving out of that group. For our purposes today, however, I would like to adopt a rather specific definition. For the discussion that follows, I shall define "older Americans" as those 65 years of age or older. This is the "conventional" retirement age, although significant numbers of people retire before that age, and many continue to work after it. Thus while there are substantial overlaps, "older Americans" are not really the same as the retired population, i.e., those no longer in the labor force.

Nor are "older Americans" the same as Social Security recipients. More than one-fourth of Social Security recipients are persons under the age of 65 receiving disability, survivor or dependent benefits. Other retirees under railroad retirement, civil service retirement, or military retirement may not draw Social Security. Finally, some over the age of 65 may not qualify for any retirement payments.

The expenditure data used in constructing a CPI refer to the entire household or consumer unit. These units can be defined as "older Americans" units if the household (or reference person in the survey) is 65 years of age or older. A broader definition would include units in which either the householder or householder's spouse was 65 or older. Existing expenditure data are not now tabulated that way, but a new major indicator for the 65-and-over group should probably use this broader definition. This broader older-household definition would cover about 82 percent of the 65-and-over urban population. Another 9 percent live with relatives other than their spouse, about 5 percent are residents in homes for the aged, and the remainder have a variety of other living arrangements. It should be noted that 22 percent of those 85 and older are residents in homes for the aged.

The Bureau of Labor Statistics collects prices for the CPI program in urban areas only and covers the urban population living in places of 2,500 or more. A price measure for older persons would also have to be confined to the urban population; to do otherwise would raise a series of survey problems and markedly increase costs. This should not be a problem, however, since like the population as a whole, the vast majority of the 65 and older population lives in urban areas.

It is also important to understand how older Americans are treated statistically in the current Consumer Price Indexes. The BLS publishes a separate CPI for two different populations. The CPI for all Urban Consumers (CPI-U) covers about 80 percent of the population and prices the average market basket of all urban persons. The CPI for Urban Wage Earners and Clerical Workers (CPI-W) reflects the average market basket of consumer units that have more than half their income from persons employed at least 35 weeks during the year in a wage earner or clerical worker occupation. Thus, the CPI-W, which is currently used to escalate Social Security payments, excludes professionals such as nurses or teachers, the self-employed, the unemployed,

and the retired. This "W population" constitutes only about 32 percent of the national population.

Who are the Older Americans?

In the 1980 Census, 11.2 percent of the population was aged 65 and over, although the proportion has been growing. Within this group, 53.5 percent live with a spouse and another 28.8 percent live alone.

Within the group of older Americans, there is considerable variability. Analysis of data for those aged 65 and over, disaggregated into more narrow age ranges, has shown major socio-economic differences. The average cash income for older couples is more than twice that of older individuals living alone. As a result, older couples have money income that is 82 percent of the average income for all couples. Older 1-person households, however, have an income level that is only 71 percent of that for all households of that size.

These income figures have not been adjusted for the fact that older Americans enjoy certain tax preferences--for example, partial exemption from taxes of income from Social Security and substantial exemptions from capital gains on the sale of a primary residence. Nor do these income figures include the value of Medicare payments or other non-cash income.

By simply dividing the older population group into those aged 65 to 74 and those 75 and over, one can see some other important differences. Income for the younger of these 2 groups (65-74) is about one-third higher than for the older group (75 and over). This is chiefly because of the greater incidence of wage and salary earnings in the younger group. In addition, 63 percent of persons aged 65 to 74 live with a spouse, while only 38 percent of those over 75 do. Moreover, a disproportionate number of older single person households are female.

The proportion of older persons in the population differs by region. In the 1980 Census, the range ran from a high of 12.8 percent in the Northeast to a low of 10.0 percent in the West, with the South and North Central regions at 11.3 percent. While there are some highly visible examples of individual southern and western cities (such as Miami Beach and Phoenix) with large retirement populations, the dominant trend (at least for this time period) seems to have been for the more mobile younger population to head south and west in search of employment.

Expenditure Patterns for Older Americans

Expenditure patterns for older Americans differ in important respects from those for the population as a whole. As one might expect, older persons spend a greater proportion of their budgets on medical care. They also spend proportionately more on such things as grocery store food, household fuels, and personal care items. On the other hand, they spend less, on average, for gasoline, purchase of motor vehicles, education, and apparel.

Homeownership among the older population is higher--72 percent--than for the population as a whole--60 percent. Homeownership, however, declines to about 68 percent after age 75.

These known differences in spending patterns have led some to speculate that the inflation experienced by older Americans may differ from that of the average urban population. During the double digit inflation of the late 70's and early 80's, some speculated that the use of the CPI for escalation of Social Security benefits was over compensating retirees. More recently there has been speculation that the lower rate of inflation shown in the official CPI may have been less than that for the older population.

Fueled in part by these perceptions, there have been a large number of studies on possible differences in inflation experience during the last two and one-half decades. Three of these studies were done by BLS. There were some differences in the defined population being measured, but the results are worth reviewing briefly, and I will do so a little later in my testimony.

Differences in Spending Patterns Within the Older Population

The differences in income and household composition for those aged 75 and over plus their different consumption preferences result in marked differences in spending. We should not be surprised to find that the 75 plus group, on average, spends even more on medical care than does the group aged 65-74. In fact, the difference between the two groups of older persons in the proportion of medical spending is greater than the difference between the 65-to-74 group and the population as a whole.

In general, apart from medical care, few major differences exist between the spending patterns of the 65-to-74 age group and the population as a whole. Their food-at-home spending

proportions are somewhat higher, and apparel and education spending are lower. Spending for housing and gasoline, however, are almost identical. It is the 75-and-over group that has the markedly different spending habits. The proportion they spend on housing is substantialy higher. The proportion spent on transportation is about one-third less, with major reductions in the purchase of gasoline and motor vehicles. Spending on apparel is also lower.

What is a CPI for Older Americans?

Construction of an accurate CPI for older Americans, would require five things:

(1) Expenditures by older persons for each of the approximately 200 item categories in the CPI--such as rent, gasoline, men's pants, and prescription drugs--to establish samples and relative importances, or "weights" for the index.

(2) Geographic weights and distributions of prices to reflect where older persons live.

(3) Samples of stores and other outlets where older persons actually make their purchases. These may, on average, differ from those frequented by the general population, and they may have different price trends. We would need to find out.

(4) Within each of the 200 CPI item categories, information on the varieties of items actually purchased by older persons. Older men purchase pants, for example, but they probably purchase a different proportion of designer jeans than does the population as a whole. Older persons also might buy a different array of prescription drugs. We do not know how important these differences in varieties purchased are, nor do we know whether there are major differences in price changes among the various varieties. But these are the kinds of issues for which we would need answers in order to produce an accurate CPI for older Americans.

(5) Prices actually paid by older persons. While the current CPI does incorporate the effects of changes in some "senior citizen discounts" and other special prices for specific age groups, obviously an index specifically for older persons would need a more extensive inclusion of these special prices.

Our ability to address each of these requirements for a CPI for older Americans needs some further discussion.

Expenditure Weights

As you can infer from my earlier discussion, it is possible to tabulate the existing Consumer Expenditure Survey (CE) separately for the older population. Such tabulations have been done in the past and, if the survey were expanded sufficiently, it could serve as the basis for expenditure weights for the approximately 200 item groups in a CPI for older Americans. If that were all we did, however, the other four sources of differences between a CPI for older Americans and the CPI-U would not be taken into account.

Because the older population is so small a proportion of the total, the current CE sample, on which tabulations are now possible, would be only about one-tenth the size of that used in the CPI-U and one-third the size of that used in the CPI-W. Expanding the survey to produce expenditure weights of sufficient reliability could be quite expensive. (The research studies that I mentioned earlier all used some type of estimate of older persons' spending patterns based on the small sample of older Americans in the existing CE data.)

Geography

The expenditure weights in the CPI are calculated for each of about 200 item groups within each of 43 geographic strata. Each of these weights is the product of two factors: (1) the average expenditure per consumer unit for the item in the geographic area, and (2) the number of consumer units in that area. For older Americans, the retabulated and augmented CE could give us the average expenditure and the count of consumer units could be developed from special tabulations of census data. While many items in the American economy are traded in a national market, some items such as housing and certain public services have more localized markets. A CPI for older Americans would, thus, need to reflect the different geographic distribution for the older population.

One cannot predict what, if any, effect there would be from a more detailed test of the geographic weighting. One of the biggest differences among local area price trends comes in the housing market. During the last decade, on a regional basis, rents have risen most rapidly in the West, which has

the smallest concentration of older persons. These factors would work to make a CPI for older persons lower than the overall CPI. But whether this difference would result in any net total difference cannot be predicted without actually doing the full reweighting. Part of the complication comes from the fact that variations within each of the regions are also substantial. For example, within the West, rent increases in San Francisco have been more than twice those in Portland, Oregon. On the other hand, rent increases in Boston have been larger that for the New York City area and larger than the average for the West region.

Outlets

The sample of outlets in the CPI is representative of all the places where all urban consumers purchase their goods and services. Because the older population is part of that total, some of these are also representative of older persons' places of purchase. However, we do not know whether older Americans shop in different types of stores or in different localities within an area than the total population does. Furthermore, we have no way of knowing whether any such outlet differences would translate into meaningful differences in measured price trends.

Varieties

For the existing CPI, BLS relies on data from the individual stores and other outlets to identify the varieties of each product to be priced. A haberdashery selected for the CPI sample can supply information on the relative proportions of designer jeans, casual slacks, dress slacks, and work pants that it sells to the general population. It cannot tell us the proportions of each of these purchased by persons age of 65 and over.

The only way to get this detailed data about varieties of items consumed by older American is to ask the individual consumers themselves. The existing consumption surveys do not collect data with that degree of detail and adding the detail for an adequately large sample of older respondents would be a very expensive undertaking.

Prices

When a mass transit system offers a "senior citizen discount rate," the CPI uses such a rate in proportion to its use by all riders of the system. For an older persons' CPI, one would need to use this special rate in the proportion that all older persons may not confine their travel to those hours. Similar kinds of arrangements would need to be identified and included appropriately in any CPI intended to measure the price experience of only the older population.

Research Results

As I have already noted, none of the research reports that I have seen on topics relate to a CPI for older persons accounts for all five of the possible dimensions along which older persons' inflation rates might differ from those of the general population. All make some effort to adjust for differences in spending patterns among significant categories of consumption. One (a 1982 GAO report) also made partial adjustments for differences in geographic location. None made any adjustments for the other three dimensions of potential difference.

The 1982 GAO study reviewed other work and made some of its own calculations. It found virtually no difference between an index constructed from expenditure weights for a retiree population and the official CPI. The GAO report commented that the change in homeownership measurement introduced into to official CPI's by BLS was probably the most important improvement that could be made in measuring inflation for the retired population. GAO also recommended that the Congress adopt the CPI-U rather than the CPI-W for escalating Federal Transfer payments such as Social Security. Finally, the GAO recommended that the BLS publish annually a special "Hybrid index" in which the CPI expenditure categories were reweighted by expenditures of the retired population.

BLS disagreed with the recommendation to publish such an index because it would deal with only a small part of the possible differences between the two populations and could be very misleading. Even if the index were labeled "hybrid," it would appear to measure more than it actually did. What is more, it could actually be farther from the "true" CPI for the older population than the existing CPI-U. Reweighting by expenditures might move the index up--or down--but it is

entirely possible that the effects of geography, outlets, varieties, and prices could more than offset the effects of that reweighting.

Almost every other piece of research on this subject has also shown that reweighting the official CPI would make very little difference over the long run. One BLS study shows that over each of the years 1974, 1975, and 1976 a reweighted index for retirees would have risen less that one for the general population. During the next 3 years, the retirees' index would have risen more. For the entire 6-year period, the research index for retirees, on average, rose only one-tenth of 1 percent more per year. Even in years of double-digit in-flation, the difference between the two measures was always less than 1 percent.

The most recent piece of research on this topic (also conducted at BLS) found the differences to be even smaller. Looking at 8 years of data (1972-1980) for renters only, the study compared a reweighted price index for those 65 and over and one for the general population. The average annual difference between the two indexes was 0.04 percent--less than half of one-tenth of 1 percent.

This study also looked at indexes for other subpopulations. One of the interesting findings was that a reweighted CPI to represent the expenditures of single-person households aged 65 and over was closer to the total population measure than it was to a reweighted index for the average for all consumer units aged 65 and over. This is important. It reminds us that the differences within a subpopulation may be greater than the difference between the average of that subpopulation and the average for the general population. In this case, for the years in question and given the limitations of the methodology, the inflation experience of the single individual living alone would have been represented less well by a special purpose index for all older persons.

Why are the Differences so Small?

It is true that much of the slowdown in inflation last year came from radically lower gasoline prices, and it is also true that the older population buys less gasoline than the total population. (As I have already noted, this second premise is true only for that portion of the population age 75 and over.)

Does this mean, however, that the CPI understated the price changes experienced by the older popualtion? Not necessarily. Older persons buy proportionately more fuel oil than the general population, and fuel oil prices declined as much as gasoline prices. Thus, the effects of gasoline and fuel oil price changes would have partially off-set each other. Of course, older persons have more medial expenditures, and medical care prices have been rising faster than the average change of all prices. But older persons spend less on other purchases with above average price increases, including college tuition, new cars and entertainment services.

Is it Time for a CPI for Older Americans?

I hope that three things have stood out clearly from my testimony thus far. First, we do not have available the data from which one could construct an accurate "CPI for older Americans." Second, constructing such an index only from the data that are currently available, might actually be misleading and reflect older persons' inflation rates less precisely than does the existing CPI-U. Third, research measures constructed with the data at hand show that indexes of price change for older persons differ from indexes for the general population only by small amounts and that over the long run, the differences nearly vanish. In addition, construction of an accurate CPI for older Americans would be expensive and would take several years to complete.

Nevertheless, BLS is a service agency, and we wish to be responsive to policy needs. We are in the process of considering the possibilities for meeting those policy needs. For example, a simple reweighted index--with somewhat more item and geographic detail--could be produced; as I have explained, such an index is not likely to differ very much from the overall CPI. Other possibilities would include research on the specific items and places in which older people shop, as well as the possibility of producing a CPI for older Americans that would meet all the requirements of a fully specified index which I have discussed with you this morning.

The CPI-U and the CPI-W

Currently, most Federal transfer payments, including Social Security, are escalated by the CPI-W, which excludes from its coverage, among others, those who have retired. The CPI-U, on the other hand, reflects the average market basket of all urban consumers, including older Americans.

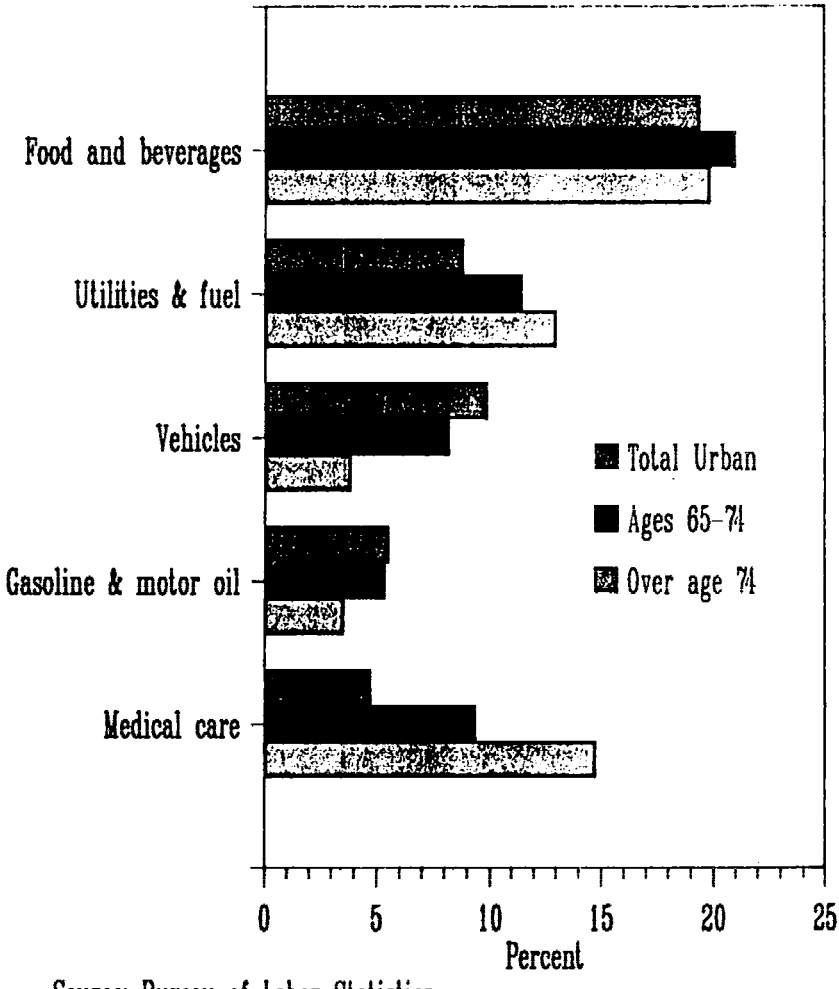
For this reason, the GAO recommended in 1982 that Federal transfer payments be escalated with the CPI-U.

Of course, the CPI-U is not an index for the older population. It includes within its universe not only the CPI-W universe and the retired population, but also many other types of consumer units. Nevertheless, the greater inclusiveness of the CPI-U and the total absence of the retired population from the CPI-W are matters that ought to be considered seriously.

Conclusion

I hope, Mr. Chairman, that my comments here today have helped to clarify the technical issues involved in producing a CPI for older Americans and will assist the Committee in reaching decisions on this important policy issue.

Consumer Expenditures 1984 Proportions of Total Expenditures for Selected Items



Source: Bureau of Labor Statistics
June 29, 1987

Five Factors Needed for a CPI for Older Americans

1. Proportions of expenditures by the older population for each of the 200 item categories in CPI–U.

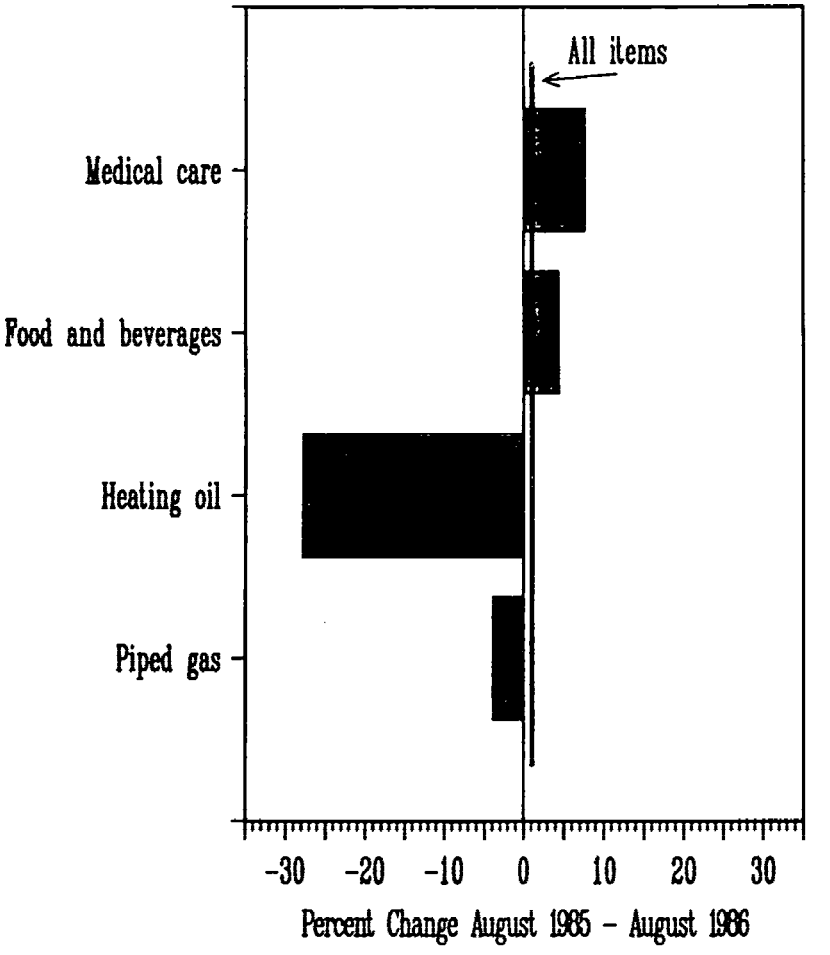
2. Geographic distribution of the older population.

3. Stores and other outlets used by older population.

4. Varieties purchased by the older population within each of the 200 item categories.

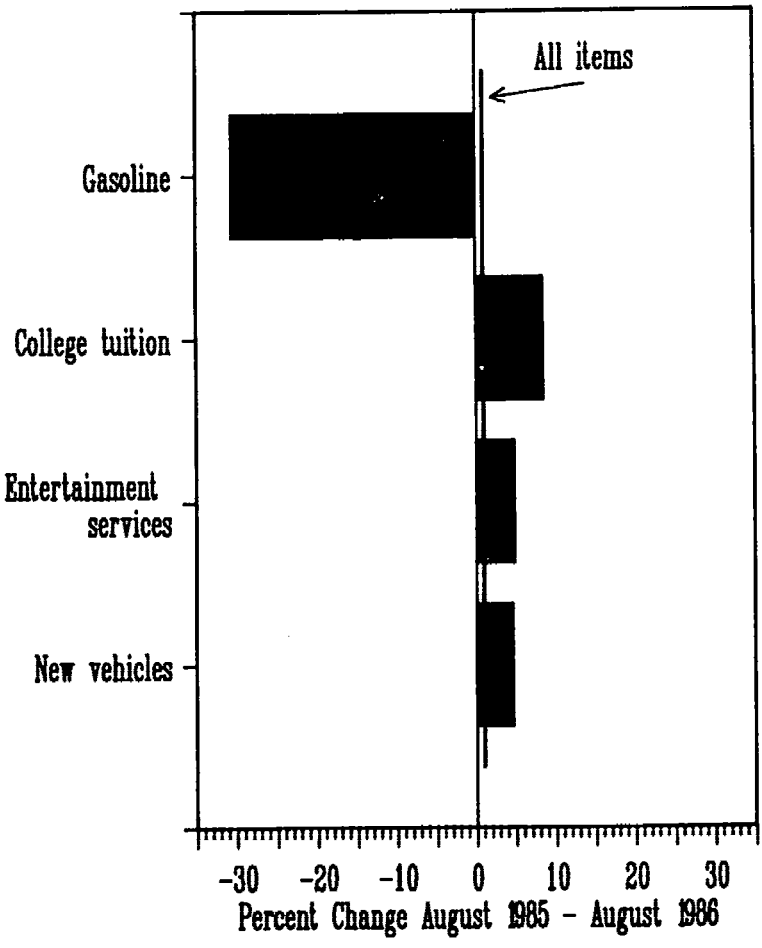
5. Prices paid by the older population, such as "senior citizen discounts."

Items with Larger Shares of Spending for Older Americans, CPI-W Percent Changes



Source: Bureau of Labor Statistics
June 29, 1987

Items with Smaller Shares of Spending for Older Americans, CPI-W Percent Changes



Source: Bureau of Labor Statistics
June 29, 1987

The CHAIRMAN. Dr. Norwood, they have not only clarified some of the technical aspects of this, they have clarified the very basic aspect of this hearing. You have said twice—and I commend you for pointing it out twice to all of us—that the consumer price index which is used to determine the cost-of-living adjustment for retirees does not survey retired older Americans, in its assessment and its findings. They are completely left out of it. The consumer price index only reflects what working people in urban areas receive.

Dr. NORWOOD. That's true of the CPI-W which is used for escalation. It is not true of the CPI-U.

The CHAIRMAN. No. I know it is not true of the CPI-U. But that isn't used.

Dr. NORWOOD. That's correct.

The CHAIRMAN. I think this point should be emphasized. The law requires the Bureau of Labor Statistics to produce the consumer price index on which Social Security COLA's are based. However, this index, the CPI-W, leaves the retirees out completely. They're not even in the sampling process.

Now, Dr. Norwood, you have heard testimony today from three witnesses who have told us how much it costs them out of their income each month to go for prescription drugs alone. Their costs run somewhere in the neighborhood of just under 10 percent to well over 15 or 17 percent of their total income. This figure is not at all representative of other age groups. Is that not true?

Dr. NORWOOD. That's correct. Again, however, it depends on how you define the population that we are covering. If you define them as 75 and over, it is close to 15 percent. Health care in general is close to 15 percent of out-of-pocket expenditures. It is considerably less if you look at the 65 to 74 year olds, but even they are somewhat more than for the total population.

The CHAIRMAN. Dr. Norwood, I wasn't referring to all health care. I was only referring to prescription drugs. I think what we heard today is typical. And I'm just asking whether or not you agree that somewhat just under 10 percent to as high as 15, 16, 17 percent of the total income of the elderly goes just to prescription drugs.

Dr. NORWOOD. I can provide that for the record. I don't have that specific figure here.

[Subsequent to the hearing, the following information was submitted for the hearing record by Dr. Norwood:]

In the 1982-84 CPI-U market basket, prescription drugs accounted for 0.9 percent of all expenditures. For consumer units with householder aged 65 or older, 2.2 percent of all expenditures were for prescription drugs.

The CHAIRMAN. All right. And what year would that be?

Dr. NORWOOD. It would be 1984 probably.

The CHAIRMAN. I think we have to bear in mind that we are looking at 1987 because that's where we're at, and there is a tendency, at least on prescription drugs, for the figures of this year not keeping up with what was three or four years ago.

In addition to that, we have requested that specific information about prescription drug prices be included in my amendment to the Senate-passed supplemental appropriations bill. In other words, general health costs would be one item and prescription drugs an-

other. We just think these are two items that have to be looked at separately.

Dr. NORWOOD. Mr. Chairman, if I may——

The CHAIRMAN. Yes.

Dr. NORWOOD [continuing]. I believe very strongly, and the Bureau of Labor Statistics would take the position, that if an index is created, even if it is merely a reweighting, it should be a total reweighting to the extent that it is possible for us to do so, using all of the expenditures of the elderly population. I think it would be very wrong merely to take medical care because it is higher and not take into account automobiles which are lower. What you want is a fair representation.

The CHAIRMAN. Well, you will see the—unless the language is changed or it isn't passed at all, that there are several items that we have identified that the Bureau of Labor Statistics should look at first in order to give us some advice.

After all, all we're asking you for is a report back. We know that if we were mandating the comprehensive index that you discussed in your testimony, we would have to wait until the year 1990 or 1991. We are not going to wait that long because we think it is more critical. Therefore, we are asking you to give us a report back on what you might surmise is the difference.

Now, I know that for people like yourself who are excellent in providing statistics, you hate to go at anything piecemeal or hate to go at it with just a quick overview. But nevertheless, I think that is what the amendment requests of you, and to give us some guidance. We will decide after that whether the CPI-U, that you have referred to several times, might be a fairer method for indexing older Americans Social Security benefits. After receiving your report, we will decide whether—as GAO has recommended—we should use the CPI-U, rather than the CPI-W for cost-of-living adjustments.

Dr. NORWOOD. Yes. Mr. Chairman, I would like to emphasize that it is not my role to make a recommendation on policy. And I am not doing that. What I am saying is that the CPI-U is more representative of the older population than is the CPI-W. And that has nothing to do with the question of an index for the retired or for the elderly or for older Americans.

And I would hope that if the Congress were to determine that some new program were to be developed, that the Congress would lay out the definitions of those groups.

The CHAIRMAN. Dr. Norwood, is the weighting for health care, which would include prescription drugs, around 4 percent?

Dr. NORWOOD. In the current CPI, yes, I think it is slightly higher than that.

The CHAIRMAN. Like 4.49 percent?

Dr. NORWOOD. I have those figures right here. Health care is 4.7 percent——

The CHAIRMAN. That's 4.7 percent.

Dr. NORWOOD [continuing]. For the total urban population.

The CHAIRMAN. And that includes doctors, dentists, podiatrists, hospitals, nursing homes——

Dr. NORWOOD. Yes.

The CHAIRMAN [continuing]. Prescription drugs.

Dr. NORWOOD. All health care.

The CHAIRMAN. Aspirin?

Dr. NORWOOD. Yes.

The CHAIRMAN. As different from prescription drugs?

Dr. NORWOOD. That is also included in health care.

The CHAIRMAN. All right.

When we run on to witness after witness, when we ask at senior citizen centers or other types of meetings with the elderly, how much are you spending on prescription drugs, and discover that it is somewhere around 7, 8, 10, 20 percent of their monthly income—and that's just for prescription drugs. Then, on top of that, they remind us about their dental bills, their podiatrist bills, their hospital bills, their doctors' bills, and many more health care expenses. We are talking to people, Dr. Norwood, that have 20 percent of their income going for total health care and not finding themselves to be the exceptions, but the rule.

Dr. NORWOOD. Yes, I understand that. I understand it quite well, Senator, as a matter of fact because my own father who lived to be 89 was always very upset because he was sure that because he was under Medicare, some of the costs of physicians' care in particular were probably higher for him. And he constantly questioned those, which is one of the reasons that I feel so strongly that if we get into this buisness, we ought to look at what the costs are that the elderly really face.

But in terms of the weights, I must point out to you that while health care is 4.7 percent of total expenditures for the total urban population, and for those 75 and over, it is nearly 15 percent, we also should take into account the fact that transportation costs in the CPI-U are 23 percent for the total population and they are only 14.4 percent for those 75 and over. So, we should not expect that a reweighting of the CPI is by itself going to present a much higher rate of escalation. We just do not know that.

The CHAIRMAN. What do you call a rural area versus an urban area?

Dr. NORWOOD. The CPI program collects data in urban areas. We do not collect data in rural areas. That would be an extraordinarily expensive undertaking. There are some data available for rural areas, but not in the CPI——

The CHAIRMAN. And what do you call urban versus rural?

Dr. NORWOOD. We use the Census definition. Perhaps Mr. Dalton knows the specific definition. I don't. It's 50,000 or more.

The CHAIRMAN. So, 50,000 or more in one city.

Dr. NORWOOD. It's 2,500 or more.

The CHAIRMAN. So, 2,500 or more.

Dr. NORWOOD. Yes, in one urban place. We use both metropolitan statistical areas——

The CHAIRMAN. You have never ever looked at half of Montana's people or half of Wyoming's people. We are just left out.

Dr. NORWOOD. Well, years ago, Mr. Chairman, we did discuss within the administration and with Congress the possibility of expanding our program to collect prices all over the country, but that never came to pass.

The CHAIRMAN. Your previous statement where you talked about gasoline costs just opened up sort of a sore point with a lot of us.

We know all about gasoline costs. Mrs. Fleming knows all about that. She, like many people in rural areas, have to drive inordinate distances as compared to other people. Many of these people have to drive five miles just to buy any groceries or to see a doctor. So, we know all about that, and you're not even measuring us. So, you don't know how bad things are. If you started looking at us and talking to us, we'd tell you that indeed things are even worse than what you think, Dr. Norwood, on that score.

Dr. NORWOOD. I don't make judgments about how good or bad things are, as you know, since you and I have had these discussions before.

The CHAIRMAN. Well, you don't want to count us. You don't want to talk to us.

Dr. NORWOOD. We do——

The CHAIRMAN. I'm not trying to badger you. I'm just trying to point out that indeed there are people who are——

Dr. NORWOOD. I agree.

The CHAIRMAN [continuing]. Entirely left out. But the most important, significant group that are entirely left out in the consumer price index that is used to calculate the cost-of-living adjustments for retirees are older Americans. They weren't in the CPI-W to begin with. They're not in it now. What we are asking in the amendment that passed unanimously in the Senate is that you start paying more attention to the goods and services older Americans must purchase and the inflation they face.

Dr. NORWOOD. I hope, Mr. Chairman, that the legislation specifies rather clearly whether it is older Americans or retirees or both because that would be a very different program.

And I hope you will also take into account my comment about accessibility to the lists of retirees if that is what you want to be measured.

The CHAIRMAN. Well, we will be around to tell you exactly that, Dr. Norwood. You can be certain that we will leave nothing in doubt when and if it does pass the House and the President signs it.

Senator Reid.

Senator REID. I have no questions.

The CHAIRMAN. Senator Wilson.

Senator WILSON. No questions.

The CHAIRMAN. Thank you very much, Dr. Norwood.

Dr. NORWOOD. Thank you.

The CHAIRMAN. Now we are going to hear from groups of people who represent retirees. And our first representative will be R. T. Bates who is Chairman of the Railway Labor Executives' Association's Committee on Railroad Retirement. He is accompanied by James Snyder, Chairman, RLEA Committee on Legislation and Safety.

Mr. Bates and Jim, we are glad to have you here. We think that your input about your members experience with and feelings about the inflation they face will be very instructive. Please proceed, Mr. Bates.

STATEMENT OF R. T. BATES, CHAIRMAN, RAILWAY LABOR EXECUTIVES' ASSOCIATION, COMMITTEE ON RAILROAD RETIREMENT, ACCOMPANIED BY JAMES R. SNYDER, CHAIRMAN, LEGISLATIVE COMMITTEE OF THE RLEA; AND WILLIAM G. MAHONEY, COUNSEL

Mr. BATES. Mr. Chairman, I am really pleased to be here to discuss this matter with you.

I am President of the Brotherhood of Railroad Signalmen, also Chairman of the RLEA Committee on Railroad Retirement. I have Jim Snyder on my right, and attorney Mahoney who represents the RLEA in these matters with us.

The RLEA Executives' Association is an unincorporated association with which are affiliated the chief executive officers of all of the standard national and international railway labor unions in the United States. The organizations whose chief executive officers are members of the RLEA are listed in my statement.

Mr. Chairman, the RLEA enthusiastically supports your amendment to the supplemental appropriations bill which would require the Secretary of Labor to develop a consumer price index which reflects the impact of inflation on elderly Americans from amounts appropriated to the Department of Labor for Fiscal Year 1987.

As you know, there are over one million beneficiaries of our Railroad Retirement system currently receiving annuities under that system. These retired railroad workers, like all retired workers as you have correctly noted in introducing your amendment on the floor of the Senate, bear a disproportionate burden of the effects of inflation because their needs—and I emphasize "needs"—differ greatly from those of younger, working Americans. Those needs and inflation's effects upon them should be identified as accurately as possible in order that the Congress might be informed as to the real effects of inflation upon our elderly who can bear that burden less readily than those of us who are still in the active work force, not yet living on a lower, fixed income.

We are convinced that the development of a reliable CPI for retired Americans will be most beneficial to our elderly citizens who continue to make up a larger and larger portion of our population.

While we are by no means experts in the area of designing CPIs, it does seem to us, given the fiscal restraints we face, that the most feasible solution at this point would be to adopt the GAO suggestion that BLS develop a hybrid retirees' index to monitor retirees' cost of living by reweighting data now being collected for the CPI–U to reflect retiree consumption patterns. Were this done, the Congress would be able to determine whether additional legislative action would be necessary to develop an entirely new CPI for the elderly or to apply the CPI developed on GAO's suggested basis to COLAs for the elderly.

In any event, before pensions to railroad retirees were affected, careful consideration should be given to such effects upon the Railroad Retirement system.

We thank you for your efforts in authorizing and introducing amendment no. 219, and we assure you of our support in this endeavor, and we thank you for the opportunity to express to you the views of the RLEA on this subject.

[The prepared statement of Mr. Bates follows:]

BEFORE THE
SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE
ON A CONSUMER PRICE INDEX FOR THE ELDERLY

June 29, 1987

Mr. Chairman and Members of the Committee:

My name is R.T. Bates. I am President of the Brotherhood of Railroad Signalmen and Chairman of the Railway Labor Executives' Association's Committee on Railroad Retirement. I am accompanied by Mr. James R. Snyder, Chairman of the Legislative Committee of the RLEA and Mr. William G. Mahoney, its counsel.

The Railway Labor Executives' Association is an unincorporated association with which are affiliated the chief executive officers of all of the standard national and international railway labor unions in the United States. The organizations whose chief executive officers are members of the RLEA are listed below:

American Railway Supervisors Association, Division of BRAC;
American Train Dispatchers Association;
Brotherhood of Locomotive Engineers;
Brotherhood of Maintenance of Way Employes;
Brotherhood of Railroad Signalmen;
Brotherhood of Railway, Airline and Steamship Clerks;
Brotherhood Railway Carmen of the United States and Canada, Division of BRAC;
Hotel Employees and Restaurant Employees International Union;
International Association of Machinists and Aerospace Workers;
International Brotherhood of Boilermakers and Blacksmiths;
International Brotherhood of Electrical Workers;
International Brotherhood of Firemen and Oilers;
International Longshoremen's Association;
National Marine Engineers' Beneficial Association;
Seafarers International Union of North America;
Sheet Metal Workers' International Association;
Transport Workers Union of America;
United Transportation Union; and
United Transportation Union, Yardmasters Department

Mr. Chairman, the RLEA enthusiastically supports your amendment to the Supplemental Appropriations Bill which would require the Secretary of Labor to develop a consumer price index which reflects the impact of inflation on elderly Americans from amounts appropriated to the Department of Labor for fiscal year 1987. As you know there are over one million beneficiaries of our Railroad Retirement System currently receiving annuities

under that System. These retired railroad workers, like all retired workers as you correctly noted in introducing your amendment on the floor of the Senate, bear a disproportionate burden of the effects of inflation because their needs - and I emphasize "needs" - differ greatly from those of younger, working Americans. Those needs and inflations effects upon them should be identified as accurately as possible in order that the Congress might be informed as to the real effects of inflation upon our elderly who can bear that burden less readily than those of us who are still in the active work force, not yet living on a lower, fixed income.

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In any event, before pensions to railroad retirees were affected careful consideration should be given to such effects upon the Railroad Retirement System.

We thank you for your efforts in authorizing and introducing Amendment No. 219, we assure you of our support in this endeavor and we thank you for the opportunity to express to you the views of the RLEA on this subject.

Senator REID. The panel will have some questions. Prior to the Chairman returning, Mr. Snyder do you have a statement?

Mr. SNYDER. No, I do not have a prepared statement other than just a few comments if you prefer right now.

STATEMENT OF JAMES R. SNYDER, CHAIRMAN, LEGISLATIVE COMMITTEE OF THE RLEA

Mr. SNYDER. I do want to commend the Chairman and this committee and the staff for such appropriate timing—regarding the benefits for our aged here.

I listened to the testimony here very carefully this morning. A lot of people forget about the aged, and the people are getting older, we are all getting older. We have that in our retiree groups in the Railroad Retirement, and to come up with, Mr. Chairman, some form of CPI or whatever, to take care of and help these type of people along.

In the Railroad Retirement, I would like to include another group here because I don't know what criteria, when you get down to the legislation, that you would use because you are going to listen to more witnesses and all, but one that we have that I think that would be very appropriate—you get into the age bracket—is our people on disability. As you know, the mine workers of this country and the railroad workers of this country work on under the most hazardous conditions. We have a large number that are retired on disability with lower income and haven't reached the age of even to—under the law if they have been off two years, then could be subject to or be eligible for Medicare. So, we have a large group of these type of people out there, widows and all.

In my office I hear from—I share this with my office with Mr. Bates and the rest of them—from our retirees out there that are hurting. And these are some of our older retirees that have not shared in the cost of living over the years and have been on the rolls for a number of years. And what little income they might have, savings and all, has completely dwindled.

And one of them, Mr. Chairman, he brought out his drugs, the cost of drugs. I for one right here am in my 22nd year of rheumatoid arthritis. I am paying a large amount. I haven't retired yet. I haven't retired. I'm 66 years of age, and I haven't retired. Thank goodness I haven't because of the things that might not be available to me that are available to me while I'm working like your insurance and stuff like that.

But we do have a large group of these people that do need the help out there. And we would certainly support—Railroad Brotherhood support, and I want to—music to my ears, Mr. Chairman. And I know Senator Reid and others here have always supported the Railroad Retirement system. You have faith in it. We do too. We've got problems, and there are numerous problems. We could spend a lot of time here.

But we were researching out how to overcome these problems we probably have to face in the next three or four years. These are real critical on the Railroad Retirement. And we certainly will do that and come up with approaches to do this, and we are in the process now of coming up with additional revenue on some legisla-

tion that has been prepared, such as coverage, the coverage for other people that is connected with the railroad but not paying into the Railroad Retirement system. We have approximately 50,000 or more of them out there that would make a great impact on our retirement system.

And let me point out while I'm here, Mr. Graham Claytor who is president of Amtrak—he won't be coming before your board, but he has been going before the Appropriations Committee and other committees, anybody he can find to talk to and what he is proposing—is to take the Amtrak employees out from under the Railroad Retirement system which is now around 25,000. This we vigorously oppose, and those type of things.

So, we're looking at all of these and we stand ready to assist you and your committee and your staff on a very reasonable plan—any way to take care of our aging here that the problems that we have heard here this morning.

Thank you, Mr. Chairman.

The CHAIRMAN. Jim, would you tell us proportionately how many workers are contributing into Railroad Retirement as compared to those who are receiving benefits from it?

Mr. SNYDER. Mr. Chairman, that's just about opposite what Social Security is. One employee is paying for approximately—a little over three retirees as it now stands reflect the last figures on that.

The CHAIRMAN. One employee——

Mr. SNYDER. One in three.

The CHAIRMAN [continuing]. Actively engaged in working and contributing into the fund, and three——

Mr. SNYDER. A little over three.

The CHAIRMAN [continuing]. Are retirees.

Mr. SNYDER. Yes.

The CHAIRMAN. Thank you very much. And indeed, Railroad Retirement has been a problem that people have been looking at over the past 15 years or longer.

Mr. SNYDER. Yes.

The CHAIRMAN. And three who have been looking at it and recommending legislation to keep it intact are the three of you who are sitting right in front of this committee today. And I commend you for it because it has been a hard, tough job. And so far you are winning. Is that correct?

Mr. SNYDER. Thank you. Yes, sir. And thanks to Senators like yourself here and other Congressmen and Senators. We've been fighting with this administration ever since he's been in administration to try to change this completely around, put us on to Social Security or some type of private plan, which they do not come up with any real solutions. So, we are still in there, Mr. Chairman, thanks to your good help and the others here that we are going to continue to do because it's so important.

We've got almost a million people out there that have worked all their lives and they're entitled to it. They paid for it, and we unfortunately in the railroad industry due to technological changes, automation, lack of trade in this country and all—just numerous things have caused the railroad employment to go down, to sell off of tracks now. We're facing that. It's a very critical issue now and

other people are not paying into the Railroad Retirement and the kind of a scheme that they're figuring out whether they'll have to pay in Railroad Retirement or insurance or whatever. So, just a number of things.

We'll be glad to furnish this committee at any time with things that affect us.

Thank you.

The CHAIRMAN. Senator Wilson.

Senator WILSON. No questions, Mr. Chairman.

The CHAIRMAN. Thank you all very much for your testimony.

Senator REID. I have one.

The CHAIRMAN. Oh, excuse me. Senator Reid.

Senator REID. Thank you very much, Senator Melcher.

Do the needs of retired railroad workers differ from those of others that are retiring? Any differences?

Mr. BATES. No, I don't think they're any different.

Senator REID. As Senator Simpson mentioned this morning, and I think it was directly on point, whatever we do with the Social Security System, the cost-of-living index affects your retirees as it affects other retirees. That's true, isn't it?

Mr. BATES. There are two tiers in the Railroad Retirement System. And the first tier is the same effect as Social Security, and the second tier is like one-third of the Social Security cost-of-living increase.

Senator REID. I've seen you sitting in the audience during the taking of testimony here the past several hours. And you've heard the witnesses testify that there is a need to develop a new way of measuring the cost of living. Isn't that right?

Mr. BATES. Yes.

Senator REID. And would you agree with the general direction that the witnesses have taken that we have to do something that does more than measure just 40 percent of the American public, that we have to do something so that the needs of the—for example, the elderly are part of this figure that we come out with to adjust the cost of living each year. Would you agree that there does need to be a different method of evaluating the cost of living?

Mr. BATES. Yes, I think there does. I think as so well pointed out in the Senator's introduction of the legislation that the needs of a retired person or an older person are different than they are for an active, working person.

Senator REID. Jimmy Snyder, if I could ask you a question. It is recognized that you are physically handicapped, and you've indicated here this morning that for 22 years you've been ill with arthritis. Do you have an estimate as to how much the drugs that you're required to take as a result of your condition cost each month?

Mr. SNYDER. Yes. Well over $100 a month.

Senator REID. You see, Mr. Chairman, these costs do not change. He's a 66 year old. He is going to retire, and the fact that he's working doesn't have any bearing on the cost of prescription drugs. And as a couple of the witnesses have testified here today, the drug costs of people who are ill and getting older really are expensive and a real burden. And I'm glad to see both the Finance Committee here in the Senate and the Ways and Means Committee in the

House are looking at ways to give the elderly some relief from the high cost of prescription drugs. I think that is important.

And I think you are an example, Jimmy, of why it is necessary.

Mr. SNYDER. I would like to point out as far as the drugs are concerned—and I know. I've tried them all even with your help with acupuncture out in Nevada. I tried them all. And it seemed like every time a new drug comes out that's going to help an arthritic, it is very expensive. I take pilacilamin. I take 1,000 milligrams of that a day, 250 per tablet. Each time I go, just about, it goes up 10, 15 percent each time. It has doubled. It has almost doubled per hundred in the last two years.

Senator REID. That's all I have.

Mr. SNYDER. I can furnish you figures on that any time.

The CHAIRMAN. Thank you all very much. We appreciate your help and your testimony.

Mr. SNYDER. Thank you for your compassion in this area, Mr. Chairman.

Mr. BATES. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Our next witness is the Treasurer of the American Association of Retired Persons, Mrs. Judith Brown. We will be glad to hear from you, Mrs. Brown.

STATEMENT OF JUDITH BROWN, TREASURER, AMERICAN ASSOCIATION OF RETIRED PERSONS, ACCOMPANIED BY DR. KATHLEEN K. SCHOLL, POLICY ANALYST, AARP

Mrs. BROWN. My name is Judy brown, and I am the Treasurer of the American Association of Retired Persons. I ask that our written statement be included in the record.

The CHAIRMAN. It will be made part of the record as if read.

Mrs. BROWN. The Association is pleased to testify today on the Chairman's proposal to develop a consumer price index for the elderly, the CPI-E. AARP has a longstanding interest in seeing that the cost-of-living adjustments accurately reflect the expenditure patterns of older Americans.

In brief, the Association has the following recommendations. One, that if the United States Department of Labor calculates a CPI-E, it should be published as an experimental index and followed for a period of three years with its definitions and calculations available for review and revision by non-governmental researchers before it is used to adjust government supported retirement income programs.

Two, that the Congress authorize the use of the historically more accurate consumer price index for all urban consumers, the CPI-U, not the CPI-W for cost-of-living adjustments after a budget analysis of the conversion has been submitted to the appropriate congressional committees by the Social Security Administration actuaries and the Congressional Budget Office for the committee's review.

Three, that the Bureau of Labor Statistics redefine and recalculate the medical care component of the CPI to more accurately reflect price movements of medical goods and services regardless of congressional action on the CPI-E.

Older Americans, particularly those of modest means, are more directly affected by changes in the consumer price index than any other group in the population. By statute Social Security benefits, military pensions, Federal civil service retirement and railroad retirement benefits, as well as the supplemental security income, all are influenced by changes in the CPI. Low income elderly in particular are also affected by adjustments in the food stamp programs that are tied to changes in the CPI. And the CPI is used to annually revise the official poverty threshold thereby influencing the number of elderly counted below the poverty line.

An overriding concern of older people who are dependent upon retirement income is a gradual erosion of their purchasing power. If the CPI fails to reflect the price movement of items they purchase, then older Americans are unable to maintain their standard of living over time. If the opposite occurs, however, and their retirement benefits are over-indexed, their economic well-being improves but at the taxpayers' expense.

Currently two CPIs are calculated. The CPI-W reflects the spending patterns of 32 percent of U.S. households, those in which more than half of their income is earned from clerical or wage occupations. The broader-based CPI-U representing 80 percent of the non-institutionalized population includes professional employees, the self-employed, the poor, the unemployed and retired persons. On this basis alone we believe that the CPI-U would be a more appropriate index.

However, even the CPI-U has its drawbacks, specifically, the manner in which the medical care component of the CPI is determined. Currently medical care reflects only out-of-pocket expenses for health care commodities and services. Employer provided health insurance, Medicare and Medicaid and health maintenance organizations are not properly incorporated into the calculation.

As the chart shows,[2] despite an escalating medical inflation rate, the relative importance of the medical care component in the CPI has remained relatively flat and low especially in contrast to the other components. If you will note, the red line in the chart shows that medical expenditures in 1940 were at a similar ratio to that spent in 1987. We know that is hardly true.

The understatement of actual out-of-pocket medical expenses in the calculation of the medical care component of the CPI needs to be addressed regardless of the action Congress ultimately takes on the CPI-E.

AARP suggests that COLA calculations be based on the CPI-U rather than the CPI-W, and that annualized data rather than third quarter comparisons be used. The CPI-U not only includes retired persons, but its expenditure patterns more closely approximate those of older Americans. Such a revision, of course, should be subject to a congressional approval process that should include budget analysis statements from the Social Security Administration actuaries and OMB.

AARP supports the development of an experimental CPI-E by the Bureau of Labor Statistics. However, it must be critically re-

[2] See p. 80.

viewed over time by appropriate researchers before it replaces the existing CPI measure.

Thank you, Senator Melcher. I would be glad to answer any questions.

[The prepared statement of Mrs. Brown follows:]

AARP

STATEMENT

of the

AMERICAN ASSOCIATION OF RETIRED PERSONS

The American Association of Retired Persons (AARP) is the nation's largest membership organization, representing the interests of more than 26 million members age 50 and above. The Association is pleased to testify today on Senator Melcher's proposal to develop a Consumer Price Index for the Elderly (CPI-E).

AARP commends Senator Melcher's ongoing efforts to address the economic problems of the elderly. An accurate CPI-E would end the debate about the current Consumer Prices Index for Wage Earners and Clerical Workers (CPI-W) overstating or understating the elderly's rate of inflation. But until the methods used to calculate medical care costs in the consumer price indices are revised, a CPI-E may not correctly reflect the prices paid by the elderly.

AARP has the following recommendations:

- That, if the U.S. Department of Labor calculates a CPI-E, it should be published as an experimental index and followed for a period of 3 years with its definitions and calculations available for critical review by nongovernment researchers before it is used to adjust government-supported retirement income.
- That all federal agencies use the Consumer Price Index for All Urban Consumers (CPI-U) for cost of living adjustments, pending an impact analysis of the change on the trust funds and federal outlays.
- That the Bureau of Labor Statistics (BLS) redefine and recalculate the medical care component to more accurately reflect price movements and true costs for all Americans of medical goods and services, regardless of congressional action on the CPI-E.

I. CPIs IMPACT ON THE ELDERLY

The elderly are more directly affected by changes in the Consumer Price Index (CPI) than any other group in the population. By statutory action income received by the elderly via Social Security benefits, military pensions, Federal Civil Service retirement and survivor benefits, and Supplemental Security Income payments are affected by movements in the CPI. Also affecting many elderly, is the indexation of Federal income tax brackets and exemptions. Low-income elderly are affected by adjustments in the Food Stamps program that are tied to changes in the CPI. And, the CPI is used to annually revise the official poverty threshold, thereby influencing the number of elderly below the poverty line.

The overriding concern of older people who are dependent upon retirement income is a gradual erosion of their purchasing power. If the CPI fails to reflect the price movements of items they purchase, then the elderly are unable to maintain their level of living. If the opposite occurs, however, and their retirement benefits are indexed to a CPI that overstates the changes in prices of the items they purchase, their economic well-being improves at a high cost to taxpayers.

AARP has a long-standing interest in the development of the CPI-E. Ever since the automatic cost-of-living adjustments (COLAs) were begun, AARP has been concerned that the COLAs are based upon expenditure patterns that do not reflect those of the elderly. AARP has testified several times before the Special Committee on Aging in support of the development of a CPI-E. Although our position has ranged from requesting the construction of a CPI-E (1975) to its implementation (1982), AARP has always sought the use of an accurate CPI that measures the elderly's spending patterns.

II. HISTORICAL DEVELOPMENT OF THE CPI

The Consumer Price Index was first published in 1919 to help set new wage levels for workers in shipbuilding yards. In the thirties the need for a new market basket of goods and services arose and a new CPI market basket was implemented in 1940. Major revisions were also made in 1953, 1964, 1978, and 1987. As seen in Chart 1 in the appendix, the weight for food declined over the years, whereas the weights for transportation and housing increased. Note that the medical care component has remained stable.

The Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) is based upon the spending patterns of households in which more than one-half of the household's income is earned from clerical or wage occupations and at least one of the earners has been employed for at least 37 weeks during the year. The CPI-W population includes 32 percent of the total U.S. population.

A broader-based CPI index was developed in 1978. The Consumer Price Index for All Urban Consumers (CPI-U) includes professional employees, the self-employed, the poor, the unemployed, and retired persons. It excludes persons in the military services, the institutionalized, and persons living outside urban areas. The CPI-U represents approximately 80 percent of the total non-institutional civilian population of the United States. At the time of its development, BLS planned to drop the old urban wage earners and clerical workers CPI. Since so many labor union contracts used the old CPI to escalate wages and since no one could project whether an index for all urban consumers would rise more or less rapidly than an index for wage earners and clerical workers, the old CPI series was retained.

A problem with the CPI calculations was brought to public attention during the rapid rise in mortgage interest rates of the late seventies and early eighties. The two CPIs showed volatility to interest rates as a result of the manner in which the home ownership component was constructed. The housing component overstated the housing cost of elderly households since they generally owned mortgage-free homes.

The rental equivalence method was begun for CPI-U in 1983; CPI-W was changed in 1985. The result of this change was a decline in the weight for housing and a redistribution of the weight to the other CPI components. The CPIs now produce a lower index when mortgage interest rates are increasing.

A major revision of the market basket was implemented in January 1987. AARP is currently studying these changes in a forthcoming report. Preliminary analysis suggests that the medical component is under-representative of the elderly's expenditures and the housing component appears to be over representative.

III. HOW THE CPI IS CALCULATED

Data are collected from households throughout the United States to determine what they purchase. The households' expenditure patterns as collected in the Consumer Expenditure Survey (CES) are used to determine the market basket of items that represent purchases of the average household. Another survey, termed the Point-of-Purchase (POP) survey, is used to determine where households purchase the market basket items. These items are priced monthly at outlets designated by the POP survey. Monthly changes in the item prices are used to calculate the official CPI.

In order to isolate price fluctuations from changes in living standards, the market basket remains fixed for a period of time. The market basket, however, needs to be periodically revised to reflect new purchase behaviors. To incorporate such changes, approximately every 10 years the Bureau of Labor Statistics (BLS) uses the CES to develop a new market basket of goods and services.

In a major revision the expenditures are combined into categories which receive weights that adjust for specific factors. These include the number of consumer units in the United States, the change in the geographic distribution of the population as indicated in the last decennial census, the change in prices since the last revision, changes in category definitions, and changes in the quantities of the items that are consumed.

The weights, or the "relative importance" of a component, are expressed as a ratio to the total. Relative importance ratios show approximately how the population distributes expenditures among the components. For example, a relative importance of 20 for food indicates that 20 percent of the average household's expenditures was spent on food, whereas 80 percent was spent on nonfood items.

In the period **between** major revisions, the weights are adjusted solely by the different rates of price changes among the various items. The relative importance increases for items registering a greater than average price increase and decreases for items registering a smaller than average price increase. For example, the prices for medical care increased by one-third since the last adjustment in 1982; its weight increased from 6.0 to nearly 6.9. The prices for apparel increased by one-tenth; its weight decreased from 5.2 to 5.0.

In a major revision the weights for components that experienced higher than average inflation tend to receive lower weights and those that experienced lower than average inflation tend to be given higher weights. Following the same examples, the 1987 relative importance for medical care declined by 1.45 from 1982, whereas the relative importance for apparel increased by 1.33.

The **POPULATION** weight factor is extremely important because it is actually used twice in the calculations--once in weighting the data in the CES and again in determining the relative importance of the CPI components. Therefore any over or under representation of the elderly population is in effect doubled in the CPI.

The greatest weight in the CPI is given to households in the South with the least weight assigned to those in the West. The distribution of those 65 years old and older, however, tends to differ from that of the general population with the elderly more concentrated in the South. The 1980 census distribution in comparison with the CPI weights, indicates the South is under represented by 3 percent and the West is over represented by 3 percent (Table 1). The more recent 1985 population estimates indicate the discrepancy for the South has increased further. The lag time in revising the CPI (7 years from the 1980 census for the latest revision) may be a problem if the elderly in the South are under represented and their spending patterns differ from households located in the other regions.

Table 1. CPI population weights and population distribution of persons 65 years old and older.

Regions	CPI-W weights	Persons 65 years and older	
		1980 Census	1985 estimate
Northeast	23.0	23.8	23.0
Midwest	26.8	26.2	25.6
South	30.3	33.2	33.8
West	20.0	16.8	17.6
Total	100.1	100.0	100.0

PRICES change over time and affect consumer demand. If real income does not proportionally increase with prices, then households must alter their consumption. Generally, households will reduce their consumption of items for which prices rise rapidly. For example, the elderly reported an annual average of $195 for gasoline and motor oil purchases during the 1972-73 CES and an average of $612 during the 1980-81 CES. This 214 percent increase is smaller than the change that occurred in prices (246 percent) and suggests that the elderly were able to reduce their energy expenditures in response to inflation that resulted from the oil embargoes of the seventies.

In some expenditure categories, however, the elderly cannot respond to high prices by decreasing their consumption. For instance, the elderly spent $451 on out-of-pocket health care expenses in the 1972-73 CES and $1,048 in the 1980-81 CES. This 132 percent increase is greater than the 107 percent increase in health care prices for the same period.

CATEGORY DEFINITIONS. AARP is very concerned about the manner in which the medical care component is defined. Medical care in the CPI only reflects out-of-pocket expenses for health-related commodities and services. This may have been appropriate several years ago before the widespread use of employer-paid health insurance plans, government supported health insurance programs (Medicare and Medicaid), and the wide availability of health maintenance organizations. As a result, the relative importance of medical care remains low because consumers have fewer out-of-pocket expenses.

The medical care component incorporates all of the medical expenditures of **uninsured** consumers, but these consumers may not be receiving the medical care they need because of the high cost of these goods and services. Also, only the employee-paid portion of health insurance premiums are incorporated into the CPI. These health insurance calculations are questionable for the following reasons:

1. A large portion of medical care expenses are not incorporated in the CPI since the employer-paid contributions for health insurance are considered income for the household. For example, if an employee has a pre-paid health insurance plan that costs the employer $200 per month, none of the medical care received by the family through the plan is included in the medical care component of the CPI.

2. Only the portion of the premium which is paid directly by the insurer to health care providers or as reimbursements to policy holders is incorporated into specific medical care items. For example, if a worker only pays one-half of the total cost of the insurance premium, only one-half of the medical costs covered by the insurance policy are included in the CPI calculations. Secondary data are used for these calculations.

3. The services of the insurance carriers in administering the policy are also indirectly calculated from secondary data. The health insurance subcomponent is the sum of all the retained earnings (premium revenue less benefit payment) of insurance carriers.

Another conceptual problem arises in how the costs of physicians' and hospital fees are determined in the monthly CPI item pricings. Physicians' fees are calculated from those paid by noninsured consumers only. Since 1985, BLS has been attempting to capture physicians' price discrimination. But these changes may not measure all the price structures and suggest the price movements prior to 1985 were biased. Price movements for hospital rooms are based upon published charges and are not collected from what consumers directly or indirectly pay.

Also, some medical services are not included in the medical component of the CPI. A new category was developed in the 1987 revision to include the expenses paid for the care of invalids, elderly, and convalescents in the home. This category is located under housekeeping services in the housing component; therefore a major medical cost problem for the elderly is not reflected as such.

QUALITY AND QUANTITY adjustments are the most difficult to make. Even BLS recognizes that quality adjustment error exists, but it does not know the extent of the error or its direction. Since the CPI is a constant quality index, periodic adjustments must be made in quantity to reflect a change in quality.

Of special concern to AARP are the problems associated with health insurance quantity and quality changes. Quality changes that affect premium level need to be removed before the price changes are incorporated into the CPI. BLS uses an indirect method of pricing insurance-paid medical costs because it has been unable to develop an effective methodology for removing quality changes. Once the weights are assigned for administrative costs and benefits paid by Blue-Cross and Blue Shield and for other commercial health insurance carriers, these weights are not recalculated until a major revision.

Since the proportion of workers with noncontributory health care plans are increasing, the medical weights are adjusted downward for lower quantity of health care goods and services. If an overall increase in the use of health care occurs (increase in quantity), it is not likely to appear as an out-of-pocket consumer expenditure in the CES and is not incorporated in the relative importance calculations.

Some changes in out-of-pocket expenses are not reflected until major revisions are made. For example, an increase in Medicare Part B premiums is only reflected in the major revisions. Any change in premiums resulting from the new catastrophic provisions in Medicare will not appear in the CPI until the next major revision about 10 years from now. Again a change in the consumer-paid portion of medical costs is not captured in the CPI until a major revision. For example, if the insured must pay 80 percent rather than 60 percent of an office visit, a reapportion of the weight for physicians' fees will not be made until the next major revision.

IV. SELECTION OF CPI-W FOR COLAs

The United States Code does not specify a particular CPI for cost of living adjustments (COLAs). For example, Section 8331(15) of title 5 defines the price index to be used as the "Consumer Price Index (all items--United States city average) published monthly by the Bureau of Labor Statistics" for Civil Service COLAs. In 1978 when the new CPI-U was begun, federal agencies were uncertain as to the future movement in it and chose to use CPI-W in their regulations concerning escalation of benefits.

In the eighties when the CPIs were adjusted to correct the home ownership component problems, the U.S. General Accounting Office recommended that Congress change to the CPI-U for COLAs because CPI-U included retirees and incorporated the rental equivalence 2 years before the CPI-W. Calculations for the Social Security Administration found the CPI with the rental equivalence adjustment to be slightly lower than the former CPI. Again, the federal agencies chose not to change to the CPI-U for COLAs.

Nearly 10 years after the development of the CPI-U, one can observe differences between the inflation rates as calculated from CPI-W and CPI-U (Table 2). With the exception of 1979, inflation as measured by CPI-U was the same or greater than inflation as measured by CPI-W. Although these differences appear to be small, they have an cumulative effect. For instance the May 1979 average monthly benefit of $265.16 for retired workers in current payment status escalated to $445.05 by January 1, 1987 using the CPI-W. The same benefit would be $450.76 if CPI-U was used. Although this $5.71 per month difference may seem small, an accumulation of underpayment over 20 to 30 years of retirement could be quite substantial.

Table 2. Consumer price indices by year.

Year	CPI-W	CPI-U
1979	11.5	11.3
1980	13.5	13.5
1981	10.2	10.4
1982	6.0	6.1
1983	3.0	3.2
1984	3.4	4.3
1985	3.5	3.6
1986	1.5	1.9

The use of CPI-U to adjust retirement benefits may have a minimal annual effect on the benefits of the average retiree, but the effect on government outlays would be substantial. Since the CPI-U has been higher than CPI-W for 4 of 6 years (1983-84 are not directly comparable), the costs of using the CPI-U for COLAs would be higher. For instance, for the January 1987 adjustments, each 1 percent change in the index triggered a $2.1 billion increase in costs for Old-Age, Survivors, and Disability Insurance (OASDI) COLAs. The use of CPI-U would have cost an additional $6.3 million. The effect of the use of CPI-U on long-range projections for the trust funds has not been recently examined by the Social Security Administration actuaries. A negligible effect on the trust funds, however, is expected from the use of CPI-U rather than CPI-W.

V. WHY THE CPI-U DIFFERS FROM THE CPI-W

The reasons for differences between CPI-U and CPI-W center on the inclusion of retired persons in the CPI-U. BLS has identified six differences between the CPI-U and CPI-W populations (basic definitional differences were not included).

- o CPI-U consumer unit is smaller in size because retired families are smaller,
- o CPI-U reference person is older because of the inclusion of retired persons,
- o CPI-U has fewer earners because retired persons are not in the labor force,
- o CPI-U has a higher proportion of homeowners because of its higher average age of reference persons,
- o CPI-U has a greater frequency of female reference persons because of women's greater longevity, and
- o CPI-U has higher per capita income, but has a lower total income than CPI-W consumer units.

Reasons for difference in the relative importance of items in the CPI-U and CPI-W include the following:

- o CPI-U has less importance on food at home because of smaller consumer unit sizes,
- o CPI-U has more weight in the homeowner's equivalent rent component because consumer units in the CPI-U are more likely to be homeowners with homes of higher values than those in the CPI-W, and
- o CPI-U has more weight on medical care because of the inclusion of retired persons and unemployed persons in the CPI-U. Out-of-pocket expenses are higher because employer paid health insurance is not available to many in the CPI-U. Also, the greater proportion of older persons causes more to be spent per capita on medical conditions associated with aging.

Implications are that as the population aged 65 and older grows, the CPI-U will become more reflective of the spending patterns of the elderly. Although the CPI-U weights presently do not match the expenditure patterns of those 65 years and older, the relative importance of the components in the CPI-U will gradually shift to more nearly reflect the expenditure shares of the elderly.

VI. COLA CALCULATIONS

In order to implement the COLAs on January 1 of the given year, a formula is used to calculate the rate of inflation as measured in the third quarter of the year. The average of seasonally unadjusted monthly CPI-Ws for July, August, and September is divided by the average for those months in the prior year. Confusion arises because this rate is not the annual rate for the year. In late January BLS announces an annual CPI-U which is based upon an average of the twelve preceding months of January through December. If an annual rate based upon 12 months of monthly indices was used for the COLAs, it would be more similar to the "official" rate of inflation and not as likely to cause confusion among the elderly.

VII. EXPENDITURE PATTERNS OF THE ELDERLY

Comparison of expenditure data of elderly households with the average of all households suggest that elderly households experience different expenditure patterns than those used in the CPI (Table 3). Although the direction of bias is not immediately clear, these differences suggest that a CPI based on a specific working segment of the population (CPI-W) may not represent the price movements experienced by elderly households.

Table 3. Expenditure shares of urban consumers by age, 1984.

Expenditure categories	All consumers	65-74 years	75 and over
Food	15.6	17.8	17.1
Alcoholic beverages	1.4	1.1	0.8
Housing	30.4	30.5	35.3
Apparel and services	5.5	4.5	3.1
Transportation	20.1	19.2	13.0
Health care	4.1	8.4	13.3
Entertainment	4.8	3.8	2.6
Personal care	0.9	1.3	1.3
Reading	0.6	0.8	0.8
Education	1.4	0.6	0.9
Tobacco and smoking	1.0	1.1	0.6
Miscellaneous	1.4	1.1	1.2
Cash contributions	3.4	4.8	7.8
Personal insurance & pensions	9.3	4.9	2.0
Total	100.0	100.0	100.0

The expenditure patterns of elderly consumer units have always differed from the average of all consumer units in the CES. Consistent differences can be observed over the three expenditure survey periods of 1960-61, 1972-73, and the 1982-83. An older household typically spends more than the average household on health care, food, and housing and tends to give away more cash in the form of contributions. An older households spends proportionally twice as much on health care than the average survey household. Currently, older households spend proportionally the same as they did before the implementation of Medicare in the midsixties. The gap between the older households and the average of all households appears to be narrowing for transportation, but the gap is widening for for health care.

Nearly one-half of the $67.3 billion spent on health care by consumer units in the CES in 1984 was paid by households with reference persons 55 years and older, who represented one-third of the households. Yet, most of this was spent by households with reference persons aged 65 years and older, who represented one-fifth of the households (see Chart 2 in the appendix).

As would be expected from the differences indicated in Table 3, differences are observed between the 1987 CPI-W weights and the adjusted average expenditures for consumer units with reference persons 65 years old and older (Table 4). Medical care appears to be under-representative of the elderly's expenditures and the housing component appears to be over representative.

Table 4. CPI-W relative importance and expenditure shares of consumer units with reference persons aged 65 years and older.

Components	CPI-W	Elderly's expenditures	Difference
All items	100.000	100.015	
Food and beverages	19.733	20.921	-1.188
Housing	40.492	36.019	4.473
Apparel and upkeep	6.362	4.592	1.770
Transportation	19.094	18.408	0.686
Medical care	4.469	10.810	-6.341
Entertainment	4.082	4.534	-0.452
Other goods and services	5.768	4.731	1.037

VIII. CPI FOR THE ELDERLY

Research on an elderly CPI has been hypothetical and speculative because the market basket for an elderly household has not been determined and priced according to the elderly's purchasing behavior. First, the CES must be expanded to included enough elderly households to identify the elderly's market basket. Then a Point-of-Purchase (POP) Survey must be conducted to determine where the elderly shop. Next, the elderly's market basket items must be priced at outlets designated in the POP survey before calculations can be made for an accurate CPI-E.

Ideally a CPI constructed to match the spending patterns of the retired population would be used to escalate pensions and retirement benefits. Some researchers have found the elderly to experience a higher than average rate of inflation thereby supporting the argument for a CPI for the elderly. A few researchers have found the CPI to overstate the rate of inflation experienced by the elderly. But the use of inaccurate elderly market baskets has resulted in inconsistencies when the studies are followed over time.

Research is inconclusive about the need for a separate CPI for the elderly. Some suggest that the magnitude of the difference is insignificant, and a general CPI should be used for COLAs. Others suggest that the need for a separate index is not immediate, but a combination of future economic conditions could result in significant variation between existing indices and what retirees experience in price movements. Still others see two options: use an index that is specific for the population of retired persons or provide specific assistance in programs which are designed to help the retired population with rapid price changes in specific components.

The Congressional Budget Office estimates that expanding the CES to make it statistically representative of urban and rural elderly, determining an elderly market basket, conducting a POP survey to determine where the elderly purchase their goods and services, and calculating a CPI-E would cost approximately $2 million. Other estimates in the past have been substantially higher ($15.3 million in 1980). The benefits to the elderly of an accurate CPI-E may exceed the costs of its calculation, however. Reflecting that a 1 percent overstatement of the COLAs costs $2.1 billion in OASDI COLAs, the annual cost of a CPI-E is minimal. But, if the opposite is true and the CPI-E shows a much higher rate of inflation, the costs of the COLAs could be extremely high and may affect the overall health of the trust funds and be impossible to implement during a period of large Federal deficits.

IX. CONCLUSIONS AND RECOMMENDATIONS

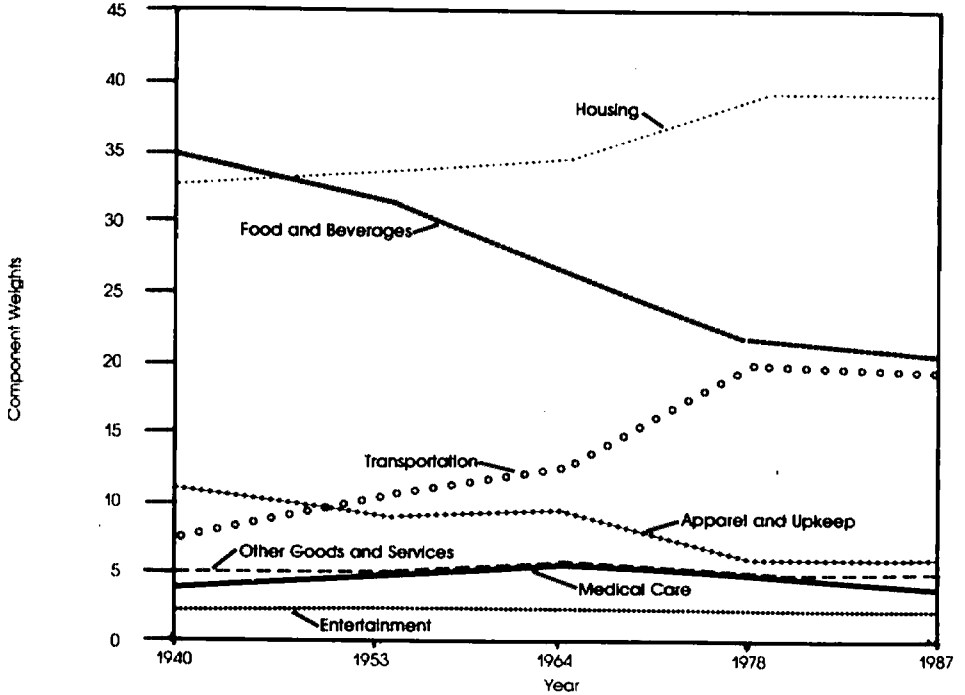
A less expensive alternative to developing a CPI-E would be to use CPI-U to adjust all COLAs. Since BLS already computes CPI-U, there would be no additional cost to develop the calculations as would be entailed with a CPI-E. Eventually, as the CPI-U population ages with the approach of the 21st century, the CPI-U will more accurately reflect the expenditure patterns of the elderly. AARP recommends that federal agencies change as soon as possible to the CPI-U and use annual data for the next cost of living adjustments. Prior to such implementation, the Social Security Administration, the Office of Management and Budget, and the Congressional Budget Office should provide impact analysis reports to the pertinent congressional committees on the use of CPI-U data and the use of annual (12 months of CPI indices) data for COLA calculations.

AARP recommends that the Bureau of Labor Statistics give priority to revising its concepts and calculations for the medical care component so it will be more representative of price movements for medical goods and services. This reconceptualization may lead to a series of experimental indices as was done to address the home ownership problems.

AARP supports the development of an experimental CPI-E by the BLS. Before it is used as a retirement income escalator, however, it should be tracked for 3 years and the definitions and calculations used in it should be published and available for critical review by nongovernment researchers.

Chart 1.

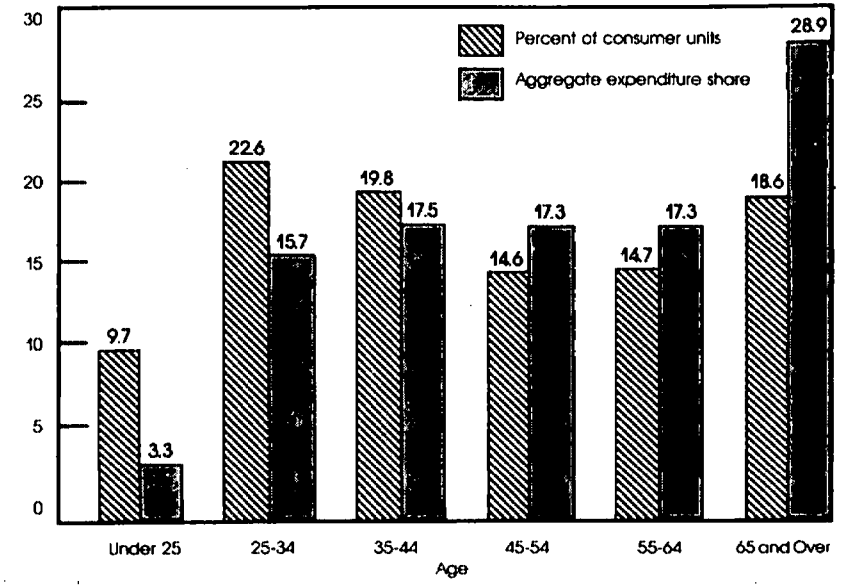
RELATIVE IMPORTANCE BY BENCHMARK YEARS



Source: Marcoot, John L. and Bahr, Richard C. 1986. The revised Consumer Price Index: Changes in definitions and availability. *Monthly Labor Review* 109(7):15-23; and unpublished data from the Bureau of Labor Statistics, U.S. Department of Labor.

DISTRIBUTION OF CONSUMER UNITS, AND AGGREGATE EXPENDITURE SHARES FOR HEALTH CARE, BY AGE OF HOUSEHOLDER, 1984

Chart 2.



Calculations from:
U.S. Department of Labor, Bureau of Labor Statistics, 1986. *Consumer Expenditure Survey: Interview Survey, 1984* Bulletin 2267. Washington, DC: Government Printing Office

The CHAIRMAN. Mrs. Brown, the CPI-W and the CPI-U are figured concurrently each year. What was the CPI-U for 1986?

Mrs. BROWN. I do not have that at the moment. I could get that for you shortly. Would you go to another question?

The CHAIRMAN. Well, that's my only question. I appreciate your testimony, and I would only point out that while we want some guidance from the Bureau of Labor Statistics—and that's the point of the amendment that the Senate attached to the appropriation bill—if we are going to change the way the cost-of-living adjustments are calculated, it would have to be done by legislation. And your testimony properly recognizes that.

Mrs. BROWN. I think part of the issue, sir, is that the differential between the CPI-W and the CPI-U is not significant at this point in time, but the compounding of that differential means that each and every year older Americans are going to have a significantly more difficult time in paying their bills and keeping up their standard of living.

The CHAIRMAN. Yes. In other words, it was low for 1986 and if it was inaccurately low, our retirees will be penalized not only for this past year, but for years to come. The problem just won't go away.

Mrs. BROWN. That's right.

The CHAIRMAN. Do we have the CPI-U percentage?

Dr. SCHOLL. In 1986, CPI-W was 1.54, and the CPI-U was 1.92. Those are annual averages.

The CHAIRMAN. Those are the annual averages? And under the CPI-U it would have been around 2 percent then. What was the third quarter figure since that's the one that was used in figuring the cost-of-living adjustment?

Mrs. BROWN. This is Kathleen Scholl, one of our Public Policy Institute staff members.

Dr. SCHOLL. Give me one more minute. I have not located the correct tables.

The CHAIRMAN. Well, Senator Reid.

Senator REID. Mr. Chairman, I think it is important to note that many times when we have people appear before us, they appear kind of in a void, and we really don't know much about them. I think it is worth noting, Mrs. Brown, is a successful business person in her own right. She has a degree from Pennsylvania State, a law degree from Rutgers, and is somebody that, in effect, has donated her time to this cause. She was elected for a two-year term to be the Treasurer of the AARP. I think it speaks well of the organization and the people in the organization to send people like her to represent them here in Congress.

Mrs. BROWN. Thank you very much.

The CHAIRMAN. Senator Wilson.

STATEMENT BY SENATOR PETE WILSON

Senator WILSON. Thank you, Mr. Chairman. Let me echo the observation made by Senator Reid. I think that that represents the best in American life and tradition, the kind of volunteerism that is represented. And Mrs. Brown's appearance not only here today but her acceptance of this responsibility.

Let me, if I may ask that you hold a little school for us. I've read your testimony, and I think it is excellent. But I've got a couple of questions because I'm not quite sure that I understand something that occurs in terms of your explanation of the category definitions in the written testimony on page 5 going to the very point that really is the central focus of the Chairman's legislation, the need to include in the calculations that seemingly fastest growing item in the elderly's market basket, the medical care component.

You have said, "The medical care component incorporates all of the medical expenditures of uninsured consumers, but these consumers may not be receiving the medical care they need because of the high cost of these goods and services." So, what you are saying is that as a result of that, the real costs of the kind of medical care that they should be receiving may very well be understated.

Mrs. BROWN. That is right sir. What happens with this component is that all people who have health insurance already paid for them by their employer or something else are extrapolated from the cost of medical expenses. So, what you have left are those people who have no insurance, et cetera—like the lady this morning who needed to have something done with her tooth and could not afford it. People less likely to spend money on medical care are those very people whose medical expenses are included in the CPI. So, we are not really getting a true picture of how many dollars our older Americans are spending for medical care.

Senator WILSON. Would it be safe to infer then that one particularly vulnerable segment of our elderly population are those who have been small businessmen and women and professionals, realtors, people like that who have been self-employed and who have not quite gotten around even in their late 1950's to providing for themselves because they have enjoyed what seems to be pretty good health and they just haven't taken that into account because of more pressing needs?

Mrs. BROWN. Absolutely, absolutely.

Senator WILSON. Well I suspect that is absolutely the case.

Let me ask you about the next sentence that occurs. "Also, only the employee-paid portion of these health insurance premiums are incorporated into the CPI. These health insurance calculations are questionable for the following reasons." And then in paragraph 2 you state, "Only the portion of the premium which is paid directly by the insurer to health care providers or as reimbursements to policyholders is incorporated into specific medical care items. For example, if a worker only pays one-half of the total cost of the insurance premium, only one-half of the medical costs covered by the policy are included in the CPI calculations."

The implication is that there is something wrong with that. Now, if you had asked me what portion would be included, I would say whatever is covered by the employee-paid portion.

Mrs. BROWN. What happens is that only a portion of the true costs of medical care is incorporated. If the consumer pays for half of the cost of a hospital room, the full cost of hospital rooms are not included in the CPI calculations. So, we are not getting a full picture of the actual medical costs which are involved.

Senator WILSON. The point under paragraph 3 is that whatever the administrative cost of the carrier——

Mrs. BROWN. Are not included. So, once again, we're getting a skewed medical cost factor here.

I might add that in my business I see many, many Americans who are older Americans who, as you say, have for a whole host of reasons have failed to obtain adequate medical care insurance for their later years. None of us realize how old we're getting and how quickly it's happening to us. It is something that happens to everyone else. We are also sure that we are going to stay healthy. It is the other fellow that is going to get sick. And so, unfortunately as time passes us, we are so busy living and taking care of our families that we forget that very soon we are older and we do need some help. And the problems of these ladies this morning, I think, is ample verification of that fact. And it appears to be wrong that we should work so hard to take care of families and get to the point of being older and not be able to go to the dentist when our tooth hurts.

Senator WILSON. Does AARP have any figures that indicate what the extent of that problem may be?

Mrs. BROWN. Those persons who are not adequately taking care of themselves medically? I don't believe we do, sir.

Senator WILSON. I guess Dr. Norwood has left. I wonder if anybody has those figures. But it certainly would be worth knowing.

Let me just ask as a basic policy question from the standpoint of AARP. It seems to me that there are a couple of options available to us as policymakers. One would be to address this question directly, as the Chairman's legislation seeks to do, so that what we are altering by creating a CPI-E, if that can be done properly, assuming that it can, is the payments that are made under Social Security. Another way to do it would be by changing Medicare to deal specifically with some of the problems of increasing medical care requirements and increasing costs resulting from them.

Does AARP have any guidance for us on what is the preferable of those two options?

Mrs. BROWN. I do not have the answer to that today, sir, but I will see that you get it.

Senator WILSON. Because I think, Mr. Chairman, that we are confronted with precisely that question by implication. And I think it can be done either way. If Congress lives up to its tradition, we'll try to do it both ways. But I think the point that has been well stated by AARP by Mrs. Brown on their behalf today is that there is a requirement to see to it that we do have an adequate index, one that does realistically reflect the needs of older Americans, retired Americans.

And she made a point in her testimony that it was also important that the taxpayer not be overburdened, and that that index needs to be an accurate one so that there is no windfall which inevitably is going to wind up penalizing somebody else.

Mrs. BROWN. I think it is our feeling at this point in time that the CPI-U, if Congress sees fit to look at that, might be an appropriate mechanism until such time as the CPI-E could adequately be researched.

Senator WILSON. Mr. Chairman, I commend the Association. I think their testimony has been very useful, and I also think the point of view they take is a realistic one.

Mrs. BROWN. Thank you.

The CHAIRMAN. Thank you, Senator.

Now, Mrs. Brown, could you tell us what the CPI-W was for the third quarter since that is the particular quarter by law that must be used for determining what the cost-of-living adjustment will be for the following year?

Mrs. BROWN. It was 1.3 percent.

The CHAIRMAN. And how much was the CPI-U?

Mrs. BROWN. It was 1.6 for the CPI-U.

The CHAIRMAN. The CPI-U was higher.

Mrs. BROWN. Yes.

The CHAIRMAN. And on an annualized basis, which you recommend, what was the CPI-W as opposed to the CPI-U?

Mrs. BROWN. It was 2.2 for the CPI-W and 2.5 for the CPI-U. These are for a 12-month calendar period ending September 30.

The CHAIRMAN. Thank you both very much.

Mrs. BROWN. Thank you very much.

The CHAIRMAN. Ms. Judy Park, Legislative Director of the National Association of Retired Federal Employees. Ms. Park, we are delighted to have you here this morning.

STATEMENT OF JUDITH PARK, LEGISLATIVE DIRECTOR, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

Ms. PARK. Thank you, Mr. Chairman. I would like to ask that our statement be included in the record in whole, and I will try to summarize for the committee.

The CHAIRMAN. All right. It will be made part of the record in full, and please do summarize.

Ms. PARK. I am Judy Park, Legislative Director of the National Association of Retired Federal Employees.

We welcome this opportunity to work with your committee in seeking a consumer price index which accurately reflects and weighs the spending patterns of older Americans.

We have followed with interest earlier this year your amendment which you successfully attached to the supplemental appropriations bill. We believe that directing the Department of Labor to look at what older Americans purchase and develop and index that more accurately reflects their spending habits is sound public policy, and we support it.

We believe protection of the purchasing power of earned retirement income is the most significant component of the Federal Government's overall retirement policies. Retirement income, as we all know, is basically fixed and maintaining the purchasing power of those dollars is of paramount importance to almost all older Americans.

The controversy today centers around the fact that retirement benefits, when indexed for inflation, are adjusted on the basis of a price index that reflects the buying habits of urban wage earners and clerical workers and eliminates totally any retirees. Retirement cost-of-living adjustments, or COLAs, are tied to this index, known as the CPI-W, because that was the standard measure in use when automatic benefit indexing was introduced as a means of

establishing a consistent approach to inflation protection that would not be subject to annual or election year machinations.

In 1978 the all urban CPI-U was developed. It surveys the spending patterns of a much wider spectrum of consumers, including retirees, and as such it presents a more accurate picture of overall inflation we believe than the CPI-W. Legislation has subsequently been passed to specify the CPI-U as the measurement for indexing some Federal programs, but in spite of assessments earlier in this decade of the General Accounting Office and others that the CPI-U provides a more accurate and reliable measure for retiree spending, the CPI-W remains the implementing index for all federally administered retirement programs.

We believe that for the purposes of retirement programs, the CPI-W is flawed. As it does not survey any retirees, it cannot accurately reflect the inflation of this group.

In addition, the CPI-W does not reflect the differing kinds of goods and services that the elderly purchase, nor does it take into account where they purchase these goods and services. Older Americans often lack the mobility to comparison shop. Without this mobility, they are more often forced to shop for food and necessities at locations that traditionally do not offer the more competitive prices.

One of the problems we see today is that older Americans are losing confidence in the current index as a measurement of the inflation they are experiencing. Some even suspect government manipulation of surveyed costs simply to hold down inflation adjustments. Most retirees simply don't realize that their own spending is not included in the survey used to index their retirement dollars.

Mr. Chairman, NARFE believes that retiree spending must be included in any index used for calculating retirement COLAs. Certainly the CPI-U is a better gauge of inflation for this purpose than the CPI-W. And like you, we would welcome and encourage a Labor Department study on a special CPI for the elderly.

But while any CPI is going to be flawed in some respect, the best we can hope for is to achieve an index which accurately reflects the spending of those it seeks to protect. We are not seeking higher inflation adjustments, but we do believe there can be a more honest calculation that will maintain the purchasing power of earned retirement dollars of older Americans.

However, Mr. Chairman, in the final analysis, NARFE maintains that retirement security is the bottom line. Whatever the technicalities of the survey and the weighings used for measuring inflation, first and foremost the Federal Government must live up to its commitment to protect the purchasing power of retirement income from the ravages of inflation. While we appreciate Congress reviewing the need for a separate or a new inflation index for the elderly, our larger concern is that Congress through this process recognize the equally pressing need for reliability and consistency in its inflation protection policy.

In this decade all retirees have witnessed some erosion of inflation protection in the name of fiscal restraint. But Federal retirees have lost more than others. And all too often political expediency rather than fiscal responsibility was the culprit. While the budget resolution adopted by Congress last week assumes fully indexed

COLAs for all Federal retirees in the coming fiscal year, experiences of the past several years have left few of them reassured of continued inflation protection.

Between the first quarter of 1983 and the third quarter of 1986, which was the last base index period, inflation rose 10.7 percent. All retirees lost some of that inflation protection as a result of a one-time delay in payments. But civil service retirees and military retirees, through a delay, a reduction, and finally a total elimination of their promised cost-of-living adjustments, have had increases totaling only 4.8 percent for that measured 10.7 percent of inflation.

Despite what many would have you believe, civil service retirement benefits are modest. And since these annuities are subject to income tax at all levels of government, the real dollar gain of the COLAs they receive is less for these annuitants than for retirees with full or partial tax exemption status.

Therefore, as we join you and others in seeking a more accurate method of surveying and weighing the consumer prices of the Nation's elderly to enhance and restore their confidence in the validity of the index, we also believe that their confidence in the commitment of the government to protect them from erosion of inflation must be restored. In the end we believe it makes no difference what CPI is used unless there is a guarantee of protection from the inflation that is measured.

Thank you, Mr. Chairman. I'll be happy to answer any questions.

[The prepared statement of Ms. Park follows:]

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STATEMENT OF
THE NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
BEFORE THE
SENATE AGING COMMITTEE
ON
A CONSUMER PRICE INDEX FOR THE ELDERLY

JUNE 29, 1987

Mr. Chairman, I am Judith Park, Legislative Director of the National Association of Retired Federal Employees. NARFE has a dues-paying membership of over 500,000 retired persons and represents the concerns of 1.5 million federal annuitants.

We welcome this opportunity to work with your committee in seeking a consumer price index which accurately reflects and weighs the spending patterns of older Americans.

Our President, Steve Morrissey, is unable to be here today, however, has asked that I convey to you NARFE's appreciation for your work on this issue. We followed with great interest the amendment which you successfully attached to the Supplemental Appropriations Bill. Directing the Department of Labor to look at what older Americans purchase and develop an index that more accurately reflects their spending habits is sound public policy which we support.

Our Association has repeatedly advocated that Congress authorize a separate CPI for the elderly that would be used to calculate the rate of inflation for adjustments in retirement programs on the basis of the elderly's consumption patterns. Older Americans spend far greater portions of their limited resources on basic core necessities -- food, energy and medical care -- than their younger, working counterparts.

We believe protection of the full purchasing power of earned retirement income is the most significant component of the Federal Government's retirement policies. The income of the average worker drops dramatically at the time he or she retires. Most retirees are unable to return to

the work force to earn additional income during hard economic times. Thus, their retirement income is basically fixed and maintaining the purchasing power of those dollars is of paramount importance.

The controversy today centers around the fact that retirement benefits, when indexed for inflation, are adjusted on the basis of a price index that reflects the buying habits of urban wage earners and clerical workers -- only 40 percent of the population. Retirement cost-of-living adjustments (COLAs) are tied to this index, known as the CPI-W, because that was the standard measure in use when automatic benefit indexing was introduced as a means of establishing a consistent approach to inflation protection that would not be subject to annual, or election year, political machinations.

In 1978, the all urban CPI-U was developed. Because it surveys the spending patterns of a much wider spectrum of consumers, including retirees, it presents a more accurate picture of overall inflation than the CPI-W. Legislation has subsequently been passed to specify the CPI-U as the measurement for indexing some Federal programs. However, in spite of the assessment of the General Accounting Office and others, that the CPI-U provides a more accurate and reliable measure for retiree spending, the CPI-W remains the implementing index for all Federally-administered retirement programs.

We believe that for this purpose, the CPI-W is flawed. As it does not survey any retirees, it cannot accurately reflect the inflation that this group of Americans experiences. The necessities of life represent a sizable chunk of an annuitant's fixed income. Expenditure categories such as medical care, energy costs, and food account for a greater share of the elderly's total income than their weight in the CPI-W. Medical care costs alone affect the elderly more than their overall impact on younger consumers. And unfortunately, inflation in the medical care component of the index has continued to spiral, even as inflation as a whole has moderated.

In addition, the CPI-W does not reflect the differing kinds of goods and services that the elderly purchase. Nor does it take into account where they purchase these goods and services. Older Americans often lack the mobility

to comparison shop. Without this mobility, they are often forced to shop for food and necessities at locations that traditionally do not offer competitive prices.

Because the current CPI-W does not weigh medical care, and other basic necessities according to retirees' spending patterns, older Americans are losing confidence in the index as a measure of the inflation they are experiencing. Some even suspect government manipulation of surveyed costs as a way of holding down inflation adjustments. Most retirees simply do not realize or understand that their own spending is not included in the survey used to index their retirement dollars.

Mr. Chairman, NARFE believes that retiree spending must be included in any index used for calculating retirement COLAs. Certainly, the current CPI-U is a better gauge of inflation for this purpose than the CPI-W. Like you, we would welcome and encourage a Labor Department study on a special CPI for the elderly. We applaud your efforts to begin such a study to find a measurement that more accurately reflects the spending habits of the elderly.

While any CPI is going to be flawed in some respect, the best we can hope to achieve is an index which accurately reflects the spending habits of those it seeks to protect. We are not seeking higher inflation adjustments than we deserve -- we seek only an honest calculation that will maintain the purchasing power of the earned retirement dollars of older Americans.

But in the final analysis, Mr. Chairman, NARFE maintains that security is the bottom line. Whatever the technicalities of the survey and weighings used for measuring inflation, the Federal Government must live up to its commitment to protect the purchasing power of retirement income from the ravages of inflation. While we appreciate this opportunity to present our views on a separate or new inflation index for the elderly, our larger concern is that Congress, through this process, recognize the equally pressing need for reliability and consistency in its inflation protection policy.

In this decade, all retirees have witnessed an erosion of their inflation protection in the name of fiscal restraint. But Federal retirees have lost more than others. And all

too often, political expediency rather than fiscal responsibility has been the culprit. And while the budget resolution adopted by Congress last week assumes fully indexed COLAs for all Federal retirees in the coming fiscal year, few are reassured of this continued inflation protection. Between the first quarter of 1983, and the third quarter of 1986 (the last base index period), inflation rose 10.7 percent. All retirees lost some of that inflation protection as a result of a one-time delay in payments. But civil service retirees, through a delay, a reduction, and finally total elimination of their promised COLAs, have had increases totalling only 4.8 percent for the measured 10.7 percent inflation. They have had to absorb 55 percent of measured price increases since the beginning of 1983. And they have been forced to constantly do battle for the 45 percent inflation protection they did receive.

Despite what many would have you believe, civil service retirement benefits are modest. The average annuitant receives $1128 per month, while survivor annuities average $536 per month. And since these annuities are subject to income tax at all levels of government, the real dollar gain of COLAs, is less for these annuitants than for retirees with full or partial tax exemption status.

Therefore, as we join you and others in seeking a more accurate method of surveying and weighing the consumer prices of the nation's elderly to enhance and restore their confidence in the validity of the index, we also believe that their confidence in the commitment of the government to protect them from the erosion of inflation must be restored. For in the end, it makes no difference what CPI measurement is used <u>unless</u> there is a guarantee of protection against that inflation.

Thank you again, Mr. Chairman, for your concern and for your work on our behalf.

The CHAIRMAN. Thank you very much, Ms. Park. That is very direct testimony, and I very much appreciate it. I think you have hit the nail right on the head when you say that there has to be an honest inflation index. There has to be an honest treatment of living up to whatever that index is in the treatment of retirees. I think you are telling it like it is, and I appreciate that very much.

Senator Reid.

Senator REID. I think it is worth reemphasizing the fact that during the past three years the cost of living has increased by about 11 percent, and the cost-of-living increases that seniors have gotten has been less than 5 percent. It is certainly less than half of the real cost-of-living increase. Is that a fair statement?

Ms. PARK. Retired Federal employees have received less than 5 percent.

Senator REID. Yes.

Ms. PARK. So, it has been less than half of what was measured by the CPI-W, which didn't include retirees in the first place.

Senator REID. That, of course, is what we are talking about with you—retired Federal employees.

Ms. PARK. And that is our concern. I think that unless you're going to get the inflation protection——

Senator REID. It doesn't matter what figure you use.

Ms. PARK. It doesn't matter how you weigh it or what index you use.

Senator REID. So, you are not enthralled, for lack of a better word, with our developing a new index. You are more inclined to think that whatever we do, we protect the COLA's you should be receiving now.

Ms. PARK. We are quite interested in the search for a fairer, more representative index. We just want to make sure that when that index or any index is in place, that there is protection for the inflation that is measured by it.

Senator REID. You have made that clear.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Wilson.

Senator WILSON. Thank you, Mr. Chairman.

I think Ms. Park's comments are very clear, and I find it interesting that her conclusion stated very well just now is that "in the end it makes no difference what CPI measurement is used unless there is a guarantee of protection against that inflation."

In addition to her comments being direct and specifically at protecting the retirement benefits of Federal retirees, I take it that it is a part of the desire of your association to see that Congress makes some real headway on deficit reduction.

Ms. PARK. I think that is to the benefit of everybody, particularly if that will hold inflation down, and therefore the need for COLAs down and prices of everything down. But I think that as prices go up, we certainly want to see like the other groups—and I like this committee—a realistic measuring of inflation as it affects retirees also. We're not shunting that aside at this point.

Senator WILSON. Thank you, Ms. Park. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Ms. Park.

Our next witness will be Mrs. Martha McSteen, National Committee to Preserve Social Security and Medicare.

STATEMENT OF MARTHA McSTEEN, NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE, ACCOMPANIED BY WILLIAM LESSARD, DIRECTOR OF POLICY AND RESEARCH

Ms. McSTEEN. Thank you, Mr. Chairman.

I am Martha McSteen, former acting commissioner of the Social Security Administration. Today I am testifying on behalf of James Roosevelt, Chairman of the National Committee to Preserve Social Security and Medicare.

With over 4 million members, the National Committee is one of the largest grassroots political organizations representing senior citizens. Its members include many of the same individuals whom SSA has served in the past. I know from having dealt with many individuals throughout my 30-plus years with SSA how very important the Social Security cost-of-living adjustment is to beneficiaries struggling to keep up with inflation.

Mr. Chairman, I am sure that you hear from your constituents the same thing that we hear from our members. Our members are saying that the Social Security COLA does not adquately reflect the total impact of inflation on senior citizens.

In January of this year, seniors received a 1.3 COLA. Such a low COLA struck Mr. Daniel H. Davis of Pittsburgh, Pennsylvania, as "outrageous," because it "was accompanied by a 15 percent increase in the Medicare premium." About 2.3 million Social Security beneficiaries with a benefit less than $185 a month received no net increase in benefits because the $2.40 a month premium increase was as much or more than the benefit increase.

Medical care costs for many beneficiaries exceed the COLA increase leaving little for other needs such as rent, food and clothing whose costs are also going up. I quote again. "After my so-called increase in January," says Mrs. Ruth Bartelt of Berwyn, Illinois, "I will be getting less per month than I am now (after paying the increase in my medigap insurance policy), and everything goes up sky high but our Social Security." And Mrs. Helen Temple of Houston, Texas wrote—and I quote—"My $4.00 increase in January got me up to $504 in Social Security income. Then my rent increased $20.00 and supplemental medical insurance went up $10.00. As a 70 year old widow, I simply am not making it."

The main reason that the COLA does not adequately reflect the impact of inflation on seniors is that the consumer price index used to compute the COLA does not give sufficient weight to medical care, so it cannot actually and adequately reflect the market basket of goods and services purchased by senior citizens.

In addition, the CPI-W used to compute the COLA, which reflects primarily the costs of workers, is usually lower than the more broad-based CPI-U developed after COLAs were made automatic.

As a consequence, the Social Security COLA is probably lower than it would otherwise be, and the income of senior citizens fails to keep up with their cost of living. If the current formula for calculating the COLA has understated the cost of living for seniors

over the last 12 years by as little as 6.5 percent, which the evidence suggests is very likely, the average retired worker in 1975 would have received $1,600 more in COLAs over the last 12 years. This worker's benefit in 1987 would be $448 a month instead of $427.60, an annual difference of $244.80.

The National Committee recommends that Congress authorize the Department of Labor to develop a CPI for the elderly as you have proposed, Mr. Chairman. Without this information Congress will be unable to determine whether the COLA actually keeps Social Security benefits up with the cost of living. The long history of this debate needs once and for all to be settled.

This hearing is particularly timely because medical care inflation last year was five times higher than the general inflation. Of course, the current CPI includes medical care inflation, but it does not take into account that seniors on average use two to three times as much medical care as the rest of the population. With medical care inflation consistently higher than general inflation, it is no wonder that seniors feel that the COLA is not keeping up with the cost of living.

This evidence shows that there is a flaw in using the CPI-W to calculate the COLA for Social Security beneficiaries. This recently revised CPI gives medical care costs a relative weight of 4.5 percent of the market basket of goods and services. In 1981, economists at the Social Security Administration constructed a CPI for older consumers and assigned medical care a weight 2.4 times higher than the medical care component of the CPI for the urban wage earners. If the CPI-W had been simply reweighted for medical care spending habits of seniors, automatic COLA increases would have been approximately 3 percent higher.

Two years after COLAs were made automatic based on the CPI-W for urban wage earners, the Department of Labor created a new, more broad-based CPI-U, which measures costs for all urban consumers including retirees. General inflation, as measured by the new CPI-U and used by the press to report on inflation, has been 3.5 percent higher than inflation measured by the CPI-W used to calculate the COLA. And this difference does not even take into account a higher weight for medical care.

This suggests that a Social Security COLA based on a CPI which measured the cost and purchasing habits of seniors should be at least 6.5 percent higher for Social Security benefits to keep up with the inflation that seniors face.

Seniors need the protection of a COLA based on a CPI which keeps up with their cost of living. We really won't know if the COLA does so until we create a new CPI for the elderly.

Thank you, Mr. Chairman, for this opportunity to appear before you.

[The prepared statement of Ms. McSteen follows:]

NATIONAL COMMITTEE TO PRESERVE
SOCIAL SECURITY AND MEDICARE

1300 19th Street, N.W., Suite 501, Washington, D.C. 20036 (202) 822-9459

STATEMENT OF

MARTHA MCSTEEN

OF THE

NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE

I am Martha McSteen, former Acting Commissioner of the Social Security Administration (SSA). Today I am testifying on behalf of James Roosevelt, chairman of the National Committee to Preserve Social Security and Medicare. With over four million members, the National Committee is one of the largest grassroots political organizations representing senior citizens. Its members include many of the same individuals whom SSA has served in the past. I know from having dealt with many individuals throughout my 30 plus years with SSA how important the Social Security cost-of-living adjustment (COLA) is to beneficiaries struggling to keep up with inflation.

Mr. Chairman, I am sure that you hear from your constituents the same thing that we hear from our members. They are saying that the Social Security COLA does not adequately reflect the total impact of inflation on senior citizens.

In January of 1987, seniors received a 1.3 percent COLA. Such a low COLA struck Mr. Daniel H. Davis of Pittsburgh, Pennsylvania, as "outrageous," because it "was accompanied by a 15 percent increase in the Medicare (premium)." About 2.3 million Social Security beneficiaries, with a benefit less than $185 a month, received no net increase in benefits, because the $2.40 a month premium increase was as much or more than the benefit increase.

Medical care costs for many beneficiaries exceed the COLA increase, leaving little for other needs such as rent, food and clothing whose costs are also going up. "After my so-called increase in January," says Mrs. Ruth Bartelt of Berwyn, Illinois, "I will be getting less per month than I am now (after paying the increase in my medigap insurance policy), and everything goes up sky high but our Social Security." And Mrs. Helen Temple of Houston, Texas, wrote, "My $4.00 increase in January got me up to $504.00 in Social Security income - then my rent increased $20.00 and supplemental medical insurance went up $10.00 - as a 70 year old widow I simply am not making it."

The main reason that the COLA does not adequately reflect the impact of inflation on seniors is that the Consumer Price Index (CPI) used to compute the COLA does not give sufficient weight to medical care so it cannot adequately reflect the market basket of goods and services purchased by senior citizens. In addition, the CPI-W used to compute the COLA, which reflects primarily the costs of workers, is usually lower than the more broad-based CPI-U developed after COLAs were made automatic.

As a consequence, the Social Security COLA is probably lower than it otherwise would be and the income of senior citizens fails to keep up with their cost of living. If the current formula for calculating the COLA has understated the cost of living for seniors over the last 12 years by as little as 6.5 percent, which the evidence suggests is very likely, the average retired worker in 1975 would have recieved $1,600 more in COLAs over the last twelve years. This worker's benefit in 1987 would be $448 a month instead of $427.60, an annual difference of $244.80.

The National Committee recommends that Congress authorize the Department of Labor to develop a CPI for the elderly as you have proposed, Mr. Chairman. Without this information, Congress will be unable to determine whether the COLA actually keeps Social Security benefits up with seniors' cost of living. The long history of this debate indicates that it is worth the effort to settle it once and for all.

This hearing is particularly timely because medical care inflation last year was five times higher than general inflation. Of course, the current CPI includes medical care inflation but it does not take into account that seniors on average use two to three times as much medical care as the rest of the population. With medical care inflation consistently higher than general inflation, it is no wonder that seniors feel that the COLA is not keeping up with their cost of living.

This evidence shows that there is a flaw in using the CPI-W to calculate the COLA for Social Security beneficiaries. This recently revised CPI gives medical care costs a relative weight of 4.5 percent of the market basket of goods and services. In 1981, economists at the Social Security Administration constructed a CPI for older consumers and assigned medical care a weight 2.4 times higher than the medical care component of the CPI for urban wage earners. If the CPI-W had been simply reweighted for medical care spending habits of seniors, automatic COLA increases would have been approximately three percent higher.

Two years after COLAs were made automatic based on the CPI-W for urban wage earners, the Department of Labor created a new, more broad based CPI-U, which measured costs for all urban consumers including retirees. General inflation, as measured by the new CPI-U and used by the press to report on inflation, has been 3.5 percent higher than inflation measured by the CPI-W used to calculate the COLA. And this difference does not even take into account a higher weight for medical care.

This suggests that a Social Security COLA based on a CPI which measured the costs and purchasing habits of seniors should be at least 6.5 percent higher for Social Security benefits to keep up with the inflation that seniors face.

Medical care inflation is gradually eroding the value of Social Security income protection. Medical care costs as a percentage of senior citizens' income are greater now than they were when Medicare began over 20 years ago. And medical care costs as a percentage of senior citizens' income are expected to rise from 16 percent in 1986 to 18.5 percent in 1991 even without any further cuts in benefits. The trend for medical care costs to increase as a percent of income is already more than a decade old and it could be worse if more Medicare costs are shifted to the beneficiary, as some have proposed.

The averages cited here even understate the impact on many poor and near poor seniors for whom even modest increases in medical care costs can be a catastrophe. While rightly concerned to improve Medicare to cover the catastrophic costs of a long-term illness, we should not ignore the "cancer" of medical care inflation which is eating away at the lives of senior citizens.

Seniors need the protection of a COLA based on a CPI which keeps up with their cost of living. We won't know if the COLA does so until we create a new CPI for the elderly.

The CHAIRMAN. Thank you very much, Mrs. McSteen. Your work with the retirees has been one that leads us to believe you've got something worthwhile to tell us. And sure enough, you do. I appreciate very much your very sound recommendations, and I commend you for them. Thank you.

Ms. MCSTEEN. Thank you.

The CHAIRMAN. Senator Wilson.

Senator WILSON. Thank you, Mr. Chairman. I think Mrs. McSteen has been clear and sufficient to the point that I don't have any questions.

Ms. MCSTEEN. Thank you.

Senator WILSON. Thank you for appearing.

The CHAIRMAN. Thank you both very much.

Dr. Larry Thompson, Chief Economist, the General Accounting Office. Please proceed, Dr. Thompson.

STATEMENT OF LARRY THOMPSON, CHIEF ECONOMIST, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY DAVID ATTIANESE, DIRECTOR OF 1982 GAO STUDY ON A CPI FOR RETIREES

Dr. THOMPSON. Thank you, Mr. Chairman.

If my entire statement will be printed in the record, I'll only read parts of it today.

Mr. Chairman and members of the committee, we are pleased to be here today to assist the committee in its deliberations on developing a consumer price index for the elderly.

From time to time questions arise about whether movements in the general consumer price index accurately reflect trends in the prices paid by specific subgroups of the population. Several years ago in response to such questions, GAO examined in detail the need for a special CPI for retirees.

Because we were interested in possible implications for adjusting federally administered retirement programs, our report focused on retirees rather than the elderly. We identified someone as retired if BLS data showed that the person was at least 50 years old, listed his or her occupation as retired and reported no earned income.

By using unpublished data, we were able to create hybrid retirees' indexes, which adjusted more completely for differences in household budgets than did most of the other studies that we had revised; which reflected spending patterns of persons who were retired as opposed to those who are just of a certain age group; and which, unlike the other studies that have been done previosuly, adjusted for some of the differences in the geographic location of retirees compared to the general population.

We made our analysis using two different methods for measuring housing costs: the one BLS used at the time and the one that it eventually implemented in 1983. And we looked in particular at price changes from the first quarter of 1978 through the first quarter of 1981.

We found, after recognizing the change in the BLS measure of housing costs, that inflation as measured by the special retiree indexes we had constructed did not differ significantly from inflation as measured by a general CPI. We found also that our adjustment

for differences in geographic location did not alter this result significantly.

There was insufficient information available, however, to enable us to determine whether retirees typically frequent different places of business than the general population and to what extent, if at all, that would affect our results.

We concluded that the evidence we had assembled did not at that time justify creating a special CPI for retirees of a quality similar to that of the general CPI. We also concluded, however, that at some future time price trends might well change sufficiently that a fully developed CPI for retirees would be justified.

Thus, we recommended that the BLS compute an experimental retirees' index, at least annually, using the general methodology we had employed. This experimental index would use data currently available to BLS and would reflect the effect of differences in the composition of household budgets.

BLS disagreed with our recommendation. It felt that more information was needed as to where retirees shop, for example, before constructing a retirees' index. We agreed that more information would be needed before a retirees' CPI could be developed for use in computing cost-of-living adjustments. In particular, the consumer expenditure surveys used to derive household spending patterns might have to be expanded to obtain more accurate data on the particular spending patterns of retirees, and studies would have to be conducted to determine if differences in the places where retirees shop introduces additional differences in inflation patterns.

However, we viewed the experimental index not as a vehicle for computing cost-of-living adjustments, but as a relatively low cost tool for monitoring the relationship between the general index and a possible retirees' index which could be used to judge whether additional work and cost involved in creating a fully developed retirees' CPI was justified.

We continue to hold that view while cautioning again that such an index should not be used for purposes other than monitoring unless and until further developmental work has been undertaken.

We should point out in closing, Mr. Chairman, that there is an index now being published by the BLS that we think is more appropriate than the index being used to compute cost-of-living adjustments for federally administered retirement programs like Social Security. As you have heard stated here repeatedly, the index now used is the CPI-W, which measures the prices associated with goods and services bought by urban wage earners and clerical workers. As we noted in our 1982 report, we believe the more appropriate index is the CPI-U because it measures the price changes associated with goods and services bought by all urban consumers, including the retired.

This concludes my prepared statement. I will be pleased to answer any questions you may have.

[The prepared statement of Dr. Thompson follows:]

United States General Accounting Office

GAO Testimony

For Release on
Delivery
Expected at
10:00 a.m. EDT
Monday
June 29, 1987

Developing a Consumer Price Index for the Elderly

Statement of
Lawrence H. Thompson
Chief Economist

Before the
Special Committee on Aging
United States Senate

Mr. Chairman and Members of the Committee:

We are pleased to be here today to assist the Committee in its deliberations on developing a consumer price index (CPI) for the elderly.

From time to time, questions arise about whether movements in the general consumer price index accurately reflect trends in the prices paid by specific subgroups of the population. Several years ago, in response to such questions, GAO examined in detail the need for a special CPI for retirees.

In our 1982 report on that subject[1], we

-- explained in some detail how the CPI is constructed and which elements of the calculation could cause the index to misrepresent changes in the cost of living for retirees,

[1]"A CPI for Retirees Is Not Needed Now But Could Be in the Future" (GAO/GGD-82-41, June 1, 1982).

-- reviewed previous analyses of differences between inflation as measured by the general CPI and as measured by an index more representative of the buying patterns of retirees,
-- constructed several versions of an illustrative retirees' CPI and compared changes in them with changes in the general CPI, and
-- explored what steps might be needed to produce a special retirees' CPI of sufficient accuracy that it might be used to index benefit programs.

We reported that among the factors which could cause a retirees' CPI to differ from the general CPI were differences between the budgets of retirees and the budget reflected in the general CPI, differences in the geographic distribution of retirees versus the general population, and differences in the places where retirees shop compared to the general population. If retirees devote a greater proportion of their total expenditures to food, for example, than does the general population, changes in food prices would affect a retirees' CPI more than the general index. Likewise, if a greater proportion of retirees live in the Southwest, for example, compared to the general population, a retirees' CPI would be affected more by price changes in that area of the country than would the general index. And finally, if retirees tend to frequent places of business other than those from which the Bureau of Labor Statistics (BLS) collects the prices used to compute the general CPI, that CPI might not reflect the price changes being experienced by retirees.

Most of the prior studies we reviewed focused on the elderly (generally defined in those studies as persons 65 years old or older) and involved the construction of indexes that had been reweighted to reflect more closely the budgets of the elderly. Those studies generally concluded that price increases as measured by those reweighted indexes were not substantially different from increases as measured by the general CPI.

Because we were interested in possible implications for adjusting federally-administered retirement programs, our 1982 report focused on retirees rather than the elderly. We identified someone as retired if BLS' data showed that the person (1) was at least 50 years old, (2) listed his or her occupation as retired, and (3) reported no earned income such as wages and

salaries. By using unpublished BLS data, we were able to create hybrid retirees' indexes which adjusted more completely for differences in household budgets than did most of the other studies, which reflected spending patterns of persons who were retired (as opposed to those in a certain age group), and which, unlike the other studies, adjusted for some of the differences in the geographic location of retirees compared to the general population. We made our analyses using two different methods for measuring housing costs--the one BLS was using at the time of our study and the one it eventually implemented in 1983. We looked in particular at price changes from the first quarter of 1978 through the first quarter of 1981.

We found, after recognizing the change in BLS' measure of housing costs, that inflation as measured by the special retiree indexes we constructed did not differ significantly from inflation as measured by a general CPI. We found also that our adjustment for differences in geographic location did not alter this result significantly. There was insufficient information available, however, to enable us to determine whether retirees typically frequent different places of business than the general population and to what extent, if at all, that would affect our results.

We concluded that the evidence we had assembled did not, at that time, justify creating a special CPI for retirees of a quality similar to that of the general CPI. We also concluded, however, that at some future time price trends might well change sufficiently that a fully developed CPI for retirees would be justified. Thus, we recommended that the BLS compute an experimental retirees' index, at least annually, using the general methodology we had employed. This experimental index would use data currently available to BLS and would reflect the effect of differences in the composition of household budgets.

BLS disagreed with our recommendation. It felt that more information was needed as to where retirees shop, for example, before constructing a retirees' index. We agreed that more information would be needed before a retirees' CPI could be developed for use in computing cost of living adjustments. In particular, the consumer expenditure surveys used to derive household spending patterns might have to be expanded to obtain more accurate data on the particular spending patterns of retirees, and studies would have to be conducted to determine if differences in the places where retirees shop introduce

additional differences in inflation patterns. However, we viewed the experimental index not as a vehicle for computing cost of living adjustments but as a relatively low-cost tool for monitoring the relationship between the general index and a possible retirees' index which could be used to judge whether the additional work and cost involved in creating a fully-developed retirees' CPI was justified. We continue to hold that view, while cautioning again that such an index should not be used for purposes other than monitoring unless and until further developmental work has been undertaken.

We should point out, in closing, that there is an index now being published by BLS that we think is more appropriate than the index being used to compute cost-of-living adjustments for federally administered retirement programs like social security. The index now used is the CPI-W, which measures the price changes associated with goods and services bought by urban wage earners and clerical workers. As we noted in our 1982 report, we believe the more appropriate index is the CPI-U because it measures the price changes associated with goods and services bought by all urban consumers, including the retired.

This concludes my prepared statement. I will be pleased to answer any questions you may have.

The CHAIRMAN. Dr. Thompson, you are the chief economist for the General Accounting Office.

Dr. THOMPSON. That's correct, sir.

The CHAIRMAN. And you have been employed by the Federal Government since 1970. Is that correct?

Dr. THOMPSON. That's correct, sir.

The CHAIRMAN. And you have worked with HHS and who else? Have you worked in Social Security?

Dr. THOMPSON. Yes, for the Social Security Administration.

The CHAIRMAN. By the way, your first degree came from Iowa State University. Is that correct?

Dr. THOMPSON. That's right.

The CHAIRMAN. We have the same alma mater.

Dr. THOMPSON. Is that right?

The CHAIRMAN. That's right. I as a veterinarian and you as an economist.

I found out in my professional life that oftentimes the dogs that I've treated or the cows I was trying to treat weren't necessarily very friendly to me. I judge that you found out in your professional career as an economist that there are various times when people themselves are not very friendly toward you. Is that correct?

Dr. THOMPSON. Only rarely.

The CHAIRMAN. Only rarely. Well, you're lucky then.

Dr. Thompson, the General Accounting Office looked at this subject specifically in 1981, did they not?

Dr. THOMPSON. Yes, the report came out in 1982.

The CHAIRMAN. Where did the figures you analyzed for your report come from?

Dr. THOMPSON. We used the figures from the Bureau of Labor Statistics.

The CHAIRMAN. So, you just used the cold, hard data that BLS had already assembled.

Dr. THOMPSON. Yes, to the extent we could. We got the raw data that they had in order to look at how the weights should be changed and what a reweighting would do.

The CHAIRMAN. And the conclusion then of the General Accounting Office in 1982 was that a separate index for older Americans was not then needed. But also I guess protecting yourselves, you said it may be needed in the future.

Dr. THOMPSON. Yes. We started off with the idea of researching whether a separate index might be needed to adjust Social Security COLAs. And our work convinced us that at that time, as near as we could tell, the movements of that retiree index would be sufficiently close to the general index—after the housing change had been made—that a separate index wasn't necessary.

But we then also concluded that, since there was no guarantee that the price movements would be that close together in the future, somebody ought to regularly monitor the situation.

So, our recommendation was to have the Bureau of Labor Statistics regularly compute and publish a hybrid index. It wouldn't be a perfect index. And we think that it probably wouldn't be a good enough index that you would really want to base your Social Security COLAs on it. But it would give you an idea of what the differences in price trends were and would allow you then to decide

whether it was worth the time and effort to create a really top notch retirees' index.

The CHAIRMAN. So, your report recommended that the Bureau of Labor Statistics track the differences in inflation as it affected older Americans as compared to the rest of us. Is that correct?

Dr. THOMPSON. I think that's a fair statement, yes.

The CHAIRMAN. And your testimony also says, if I've read it correctly and heard you correctly, that the Bureau of Labor Statistics says, oh, no, we don't want to do that.

Dr. THOMPSON. Yes. I think the issue here is that we agree with the BLS that more work does need to be done in order to have an index of the quality that you would want to have to base Social Security COLAs on. I think that we agree with them on that point.

We disagreed on whether in the meantime it might be useful to produce what we called a hybrid index, or an experimental index, that wasn't quite as accurate, but nonetheless gave you some sense of what the differences might be.

The CHAIRMAN. And so, I think it is fair to say that in 1982, in 1983, in 1984 Congress also was of the opinion that we did not need anything separate for consumer price index for the elderly. But now in 1987 it appears that we think, yes, indeed we do need some information about what older Americans have to buy and then relates it to inflationary factors.

What Congress did not do in 1982, as we probably should have, was to have insisted that the Bureau of Labor Statistics start looking at this as a separate problem for collecting their data separately and including the elderly not just into the data base, but also including the retirees to measure the difference in inflation as it affects them.

I very much wish Congress had acted and required the Bureau of Labor Statistics to do that. I suspect that we are getting around to it now. If we had an accurate inflation index available in 1986, we probably would have treated retirees much more fairly than we did in the cost-of-living adjustment effective the first part of this year.

So, in conclusion, the General Accounting Office would recommend that we at least use the CPI-U instead of CPI-W to formulate COLA's. Is that correct?

Dr. THOMPSON. Yes, sir. Now, that is a separate issue. I think the Congress may have to legislate on that.

The CHAIRMAN. Yes, we would have to legislate even to do that. But that data is in place——

Dr. THOMPSON. Absolutely.

The CHAIRMAN [continuing]. Kept and published right along. And while it would take additional legislation to do that, it would at least give the retirees an index where a broader scope is taken and, as a matter of fact, does include retirees as part of the survey population.

Dr. THOMPSON. Right.

The CHAIRMAN. Well, thank you very much, Dr. Thompson and Mr. Attianese, for coming to us today. We very much appreciate and are enlighted by your testimony.

Dr. THOMPSON. Thank you.

The CHAIRMAN. That concludes our witnesses, and I want to thank all our witnesses for testifying today. The committee is adjourned.

[Whereupon, at 1:31 p.m., the committee was adjourned.]

APPENDIX

MATERIAL RELATED TO HEARING

Item 1

July 20, 1987

The Honorable John Melcher
U.S. Senate
Washington, DC 20510

Dear Senator Melcher:

The American Association of Retired Persons (AARP) wishes to submit the following letter for inclusion in the hearing record of the June 29 hearing on the Consumer Price Index for the Elderly (CPI-E). The letter is a formal reply to Senator Wilson's question at the hearing regarding medical costs.

We would appreciate your inserting the enclosed at the appropriate point in the hearing record.

Sincerely,

Evelyn M. Morton
Legislative Specialist

EMM/sam

Enclosure

American Association of Retired Persons 1909 K Street, N.W., Washington, D.C. 20049 (202) 872-4700

John T. Denning *President* Cyril F. Brickfield *Executive Director*

Current Problems in Medicare Physician Payment

AARP believes Medicare's current fee for service reimbursement system encourages physicians to set ever higher prices and to deliver more services than may be warrented in terms of costs and medical appropriateness. There is no evidence that patient demand accounts for higher costs. Furthermore, the current payment method exposes beneficiaries to high unpredictable out-of-pocket costs and disproportionate liability for physician services.

In addition, the CPR methodology has generated numerous discrepancies and anomalies in physician payment such as:

- The gap in compensation for the use of technology and procedures over cognitive services;
- Differentials in reimbursement by specialty, place of service, and geographic location;
- The presence of payment incentives that discourage the treatment of the sickest and frailest segments of the population;
- The presence of payment incentives that encourage the use of expensive hospital care over less costly office-based care.

Short-Term Options

AARP certainly recognizes the federal budget problem associated with rapidly rising Part B expenditures. However, AARP believes that savings alone cannot serve as the sole criterion for changes in Medicare Part B. Access to care and financial protection for beneficiaries must also guide policy choices. Therefore, since it is necessary to implement interim measures to curtail Part B spending growth in FY 88, AARP recommends the following alternatives which would not only produce savings, but also begin to redress current discrepancies and anomalies in Medicare physician payment:

1. A payment reduction for selected over-priced services with part of the savings reinvested to increase payments for under-priced services such as primary care services and services which are cognitive in nature, even though current payment schemes penalize them for the use of these services rather than the use of procedure-oriented services. These options would produce budget savings by reducing reimbursement for those services which are overvalued. At

the same time, reimbursement for services which have been undervalued over time would rise.

Methodology has now been developed to identify procedures that appear most likely to be overvalued by Medicare's reimbursement system. Using this methodology, the Association believes Congress could reduce the prevailing charges for these overvalued services. Since the option affects only prevailing charge screens, physicians whose charges are relatively low for the locality would not be affected.

2. Safeguards against further cost-shifting to beneficiaries. A limitation on actual charges on non-assigned claims must accompany any reduction in Medicare payment for certain services. A reduction in Medicare payment for particular services would significantly widen the gap between allowable charges and physician actual charges. Without adequate safeguards against higher actual charges for those services, a reduction in Medicare payment would likely translate into higher costs by beneficiaries.

   If prevailing charges were reduced for any over priced procedures balance billing of beneficiaries by physicians may increase to compensate for the reduced Medicare payment. The Association strongly recommends that Congress build on the concept introduced in the Omnibus Budget Reconciliation Act of 1986 when it reduced cataract surgery payments. In OBRA Congress placed a cap on balance billing for this service. While AARP is pleased that participation and assignment rates are increasing, we believe that a cap on balance billing for physician services for which the prevailing charge is reduced is necessary to prevent further cost shifting to the beneficiaries.

3. Improvements in the Participating Physician Program. AARP supports a variety of financial and administrative incentives to encourage physicians to become participating physicians. These include:

   (a) Maintaining fee differentials with higher fees being paid to participating physicians. By providing an economic incentive, physicians will be more likely to accept assignment.

(b) One hundred percent reimbursement to participating physicians with the Medicare carrier collecting the 20 percent coinsurance from the beneficiary. Providing reimbursement for the total charge up-front would enhance physicians' incentives for participation by reducing physicians' collection costs.

(c) Streamlined billing procedures including an efficient and accurate claims process which would enhance the confidence of physicians in the system by reducing physicians' paperwork and creating a better cash flow for the physician's office. Physicians will be less likely to accept assignment since the physicians themselves will not have to wait for reimbursement.

4. In addition to strengthening the participating physician program, the Association encourages Congress to take steps to adjust the prevailing charges for physicians in medically underserved areas. The Association hopes that by bolstering payments for these physicians, particularly participating physicians in underserved areas, health care access can be broadened.

5. AARP supports <u>in principle</u> the Administration's proposal to include hospital-based physicians under the prospective payment system by which hospitals are reimbursed for services under Medicare. In our judgement, the inclusion of RAP's under the prospective payment system would assist Medicare imprudently purchasing the services of these specialist, and will help control rapidly rising Part B expenditures.

AARP believes that without assignment beneficiary costs will simply escalate and no real savings will be achieved. In recent years, out-of-pocket costs for Part B services have risen rapidly and far exceed other increases in the cost of living or Social Security benefits.

This proposal would not mean that physicians would not have to become salaried employees of a hospital. Hospitals currently have contracts with HMOs and other prepaid health arrangements. We view the RAP proposal as being very similar.

Maximum Allowable Actual Charges

AARP applauds Congress for taking a difficult step in the last budget reconciliation legislation by adopting a transition from the physician fee freeze. While the creation of the Maximum Allowable Actual Charge (MAAC) has been both confusing and administratively difficult, the Association believes that it is necessary and vital to protect the U.S. Treasury and beneficiaries from further rapid increases for Part B expenditures. The MAAC does not wholly protect beneficiaries from increased liability for Part B services because the physician's annual average of actual charges must equal the MAAC. This means that the physician may charge individual patients much more than the amount allowed by the MAAC so long as there are enough offsetting lower charges. However, this does slow the increase that might otherwise have occurred without a transition from the fee freeze because physicians cannot increase their charges as rapidly.

The Association continues to support the MAAC concept because it acts as a stop gap measure until physician reform is achieved. It is too soon to contemplate changing the base period for the MAAC. Not only would it create administrative problems, but we lack the data with which to calculate the distribution of gains and losses if the base were changed. We believe that any changes made in the MAAC scheme must take into consideration the possibility that beneficiary liability may increase. To date we have seen no data proving that a change in the base period or calculation would not increase beneficiary liability.

Physician Lab Services

The Association is distressed to learn that some physicians are not accepting assignment for services performed in a physician's lab as required by the Consolidated Omnibus Reconciliation Act of 1985 (COBRA). COBRA requires that a physician accept assignment for the lab service in order to be reimbursed by Medicare. If assignment is not accepted, Medicare will not cover the service. In this instance, Medigap policies will usually cover the service either, leaving the beneficiary responsible for the total amount. The lack of civil penalties is being used by many physicians as a loophole. The Association supports closing this loophole.

AARP

July 17, 1987

The Honorable Pete Wilson
U.S. Senate
Washington, DC 20510

Dear Senator Wilson:

This letter is in response to the question you asked Judy Brown at the Senate Special Committee on Aging's June 29 hearing on a Consumer Price Index for the Elderly (CPI-E). Your question of Mrs. Brown asked if the American Association of Retired Persons (AARP) has a preference between two options: creating a CPI-E that would correctly adjust the Cost of living adjustment (COLA) in relation to rising health costs, or changing Medicare to deal specifically with the problem of rising health costs.

AARP believes that older Americans should have an adequate retirement income. Many retirees depend on Social Security, and their annual COLAs ought to reflect accurately their expenditure patterns. Without adequate COLA's, the most vulnerable elderly will experience a serious decline in real income. One of seven households with a person 65 years old and older have no other source of income other than Social Security. The standard of living in these households totally depends on cost-of-living adjustments as derived from the Consumer Price Index.

AARP shares your concern about the impact of rising health care costs on both the Medicare system and the program's beneficiaries. Since the cost of physician services and other medical goods and services in general have been rising faster than the CPI, most older Americans have been liable for ever higher out-of-pocket costs for health care.

The new CPI-E would be based upon an average of the expenditures of all urban elderly households in the United States. The use of a CPI-E to escalate COLAs would insure that their spending power would be adjusted for a national average rate of inflation. But, not all elderly households are able to buy their goods and services at these average national prices. In some areas the elderly will benefit from regional pricing structures; others will be disadvantaged. These regional variations have been found in expenditures such as fuel oil, gasoline, and more recently medical care. Another problem inherent in the manner in which COLAs are calculated and implemented causes a lag between the period of inflation and the time they receive their adjustments.

Adequate retirement income is only one way to cushion beneficiaries against the impact of rising medical care cost. But it should not be considered exclusive of Medicare cost containment measures. Medicare Part B is the fastest growing component of domestic federal programs; annual growth is projected at 14 percent through 1988.

AARP believes Medicare's current fee for service reimbursement system encourages physicians to set ever higher prices and to deliver more services than may be warranted in terms of cost and medical appropriateness. There is no evidence that patient demand for health services accounts for higher costs. For your information I am enclosing a portion of our testimony on Part B cost containment measures.

If you need any further information on AARP's Medicare part B policy, please contact Ms. Stephanie Kennan at 728-4640.

Sincerely,

John C. Rother
Director
Division of Legislation, Research
and Public Policy

Item 2

United States Senate
SPECIAL COMMITTEE ON AGING
WASHINGTON, DC 20510-6400

July 8, 1987

Mrs. Judith Brown
c/o Mr. John Rother
Director, Legislation, Research and Public Policy
American Association of Retired Persons
1909 K Street N.W.
Washington, D.C. 20049

Dear Mrs. Brown:

Thank you for appearing before the Senate Special Committee on Aging on June 29 and testifying about a Consumer Price Index for the elderly. Your testimony was helpful and we appreciated having the benefit of your views.

Due to time constraints during the hearing, I was unable to raise as many questions as I would have liked. Because I believe they are important, I would like to request the cooperation of AARP in answering the following questions:

1. In your written testimony, you mention that the ever-increasing costs of medical care have not been reflected in the Consumer Price Index.

   a. Can you explain for us why this is the case?

   b. Do you have any specific suggestions for the Bureau of Labor Statistics about how shortcomings in the measure of medical inflation can be remedied?

2. You recommend that the government immediately start using the CPIu rather than the CPIw, but you do not specifically endorse the development of a CPI for the elderly.

   a. Why is this the case?

   b. Do you believe that the elderly would be as confident in using the CPIu to determine COLA increases as they would be in a separate CPIe, which would reflect only their costs?

The Aging Committee is keeping the hearing record open and will be placing our follow-up questions and your answers in our print of the hearing's proceedings. It is our intention to submit these additions to the record by July 31, 1987. Therefore, we request that you relay your answers to the above questions prior to that date. Once the hearing print is published, we will be sure to send you a copy.

Your continued cooperation in this matter is appreciated and we look forward to your responses.

Best regards.

Sincerely,

John Melcher

Chairman

AARP

July 25, 1987

The Honorable John Melcher
Chairman
Special Committee on Aging
U.S. Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for providing the American Association of Retired Persons (AARP) the opportunity to answer questions you have regarding our position concerning the Consumer Price Index for the Elderly (CPI-E). In the following we have restated your questions and have provided our responses. We respectfully request that you insert these into the June 29 hearing record where appropriate.

1. In your written testimony you mention that the ever-increasing costs of medical care have not been reflected in the Consumer Price Index.

a. Can you explain for us why this is the case?

The increasing costs of medical care have not been reflected in the Consumer Price Index because the weights are based upon out-of-pocket expenses only. Therefore, expenditures that are paid through employer-paid health insurance policies and government health insurance programs are not incorporated into the calculations. Although the CPI was begun in 1919, health insurance was not incorporated in the CPI until the fifties. When the basic health insurance calculations were developed, this employee benefit was just beginning to gain in popularity. By 1982, a year on which the new CPI weights are based, 71 percent of all employees in medium and large establishments had noncontributory health insurance (46 percent had noncontributory health insurance for dependents). This exclusion problem is further compounded by the use of the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) for Cost of Living Adjustments (COLAs). Of production employees in 1982, 77 percent had their health insurance premiums entirely paid by their employers (52 percent had no cost for coverage of their dependents). The exclusion in the CPI-W calculations of the health care costs for these workers and their families lowers the weight assigned to the medical care component.

Particularly disturbing to AARP is the fact that the medical care component weights were calculated for a period of time in which employer-paid health insurance was provided to a record number of employees. Noncontributory health insurance has had a long-term decline since the early eighties (which is the base period for the CPI weights). Responding to the increased costs of medical care, employers are now providing noncontributory health insurance benefits to fewer employees. In 1986, 54 percent of all employees received wholly-paid health insurance (35 percent had no cost for their dependents). Presently, the CPI weights fail to reflect medical expenses that families must now pay because employers can no longer afford to fully provide this benefit to their employees.

Also, government-paid health care is not included in the calculations for the weights for the medical care component. Apparently, calculations are made to determine the consumer-paid proportion of the total cost of the Federal program (for example, premiums for Part B of Medicare) and only this factor is included. These calculations, however, are made only for a major revision (about every 10 years). Therefore annual increases in premiums and deductibles that consumers must pay are not incorporated annually into the CPI. AARP is particularly concerned that future increases in basic premiums and supplemental premiums as a result of catastrophic health insurance coverage will not be incorporated until the late nineties.

In the 1987 revision, a new category was developed to incorporate the expenses paid for the care of invalids, elderly, and convalescents in the home. This category, however, is included as a housekeeping service in the housing component. This category represents a major medical cost for the elderly and should be reflected in the medical component. This categorization may be the cause for higher than average housing expenditures for those 75 years old and older as shown in table 3 of our testimony to the Committee on June 29, 1987.

b. Do you have any specific suggestions for the Bureau of Labor Statistics about how shortcomings in the measure of medical inflation can be remedied?

AARP has not finalized its suggestions for the Bureau of Labor Statistics (BLS) about the shortcomings of the calculations used in the medical care component. AARP, however, suggests that BLS not limit its calculations to out-of-pocket expenditures for health care. The recent housing component revision uses a rental equivalence methodology that is not based on out-of-pocket expenditures. Perhaps a similar method could be used for medical care.

BLS needs to explore several alternatives for correcting the medical care calculations. For instance, medical care expenditures in the Personal Consumption Expenditures of the National Income and Product Accounts are not adjusted for employer-paid health insurance.

BLS may choose to develop and publish several experimental indices as was done for the housing component in the late seventies. Should a satisfactory solution be developed, AARP suggests that the correction be implemented before the next major revision. This was done for rental equivalence in 1983 and 1985.

AARP recommends that these problems in the medical care component be addressed regardless of the action Congress ultimately takes on a CPI-E. Until such corrections are made, the underweighting of the component will be carried over into any other index, including the CPI-E.

2. You recommend that the government immediately start using the CPI-U rather than the CPI-W, but you do not specifically endorse the development of a CPI for the elderly.

a. Why is this the case?

There are several reasons why AARP does not specifically endorse the development of a CPI-E:

1) A true CPI-E is not simply a reweighting of the current weights in the CPI. To develop an accurate CPI-E, the market basket for an elderly household must first be determined. There are not enough elderly households in the Consumer Expenditure Survey (CES), however, to do this. Any market basket that is calculated from existing data would be hypothetical and speculative.

2) Preliminary work at BLS on consumer price indices for various demographic groups indicates that the size of the population over 65 years of age in the CES is too limited for accurate and valid computations. For instance, studies of renters only (this group is important in determining the rental equivalence computations) imply that the elderly renter population mostly consists of those households who live in subsidized housing units. Although this may reflect the low-income elderly's consumption of housing, it does not represent the rental equivalence of the costs of elderly homeowners.

3) The completion of the calculations to develop a CPI-E also entails the collection of prices at outlets where the elderly shop. Currently, this cannot be done because the Point-of-Purchase (POP) Survey does not sample an adequate number of elderly households. An accurate CPI-E would price the elderly's market basket at outlets designated in a POP survey of the elderly. A simple reweighting of the CPI would have to use prices that are obtained for the other CPIs and therefore misrepresent prices paid by the elderly.

4) Constructing an accurate CPI-E will take several years and will cost several million dollars. AARP wants any CPI-E to be correctly calculated and does not endorse taking shortcuts to develop it quickly. A cost estimate by the U.S. Census Bureau in 1980 that only expanded the CES and the POP to include a valid sample of elderly households was $15.3 million. They reported it would take 3 years to collect the data. This estimate does not include the costs and time needed by BLS to do the actual computations once the data were collected. Another expense would involve the price collection by field staff. Noting the high cost and lengthy time required to develop an accurate CPI-E, AARP believes a more cost effective approach would be to direct Federal agencies to use the Consumer Price Index for All Urban Consumers (CPI-U) for all COLAs.

5) The CPI-U already includes retired persons in its population. As the CPI-U population ages with the approach of the twenty-first century, the CPI-U will more accurately reflect the prices paid by elderly households. Since an accurate CPI-E could not be constructed until the mid nineties, it is more likely that the large baby-boom cohort will reach retirement before the calculations could be made.

6) Several researchers have already reweighted the CPI weights to reflect the buying patterns of elderly households in the CES. A simple reweighting by BLS would not add any additional knowledge on the subject. Previous research shows that reweighting methods are subject to the rate of inflation of certain components in relation to the rates experienced by other components. Therefore, depending upon the date selected for the study, previous researchers have found a reweighted CPI-E to be higher, lower, or the same as the general CPIs. Clearly the results are inconclusive. After tracking a social security market basket index from the seventies to the early eighties, Borzilleri, an economic consultant for AARP, concluded that the accuracy of the price movements were essentially a random phenomenon.

> b. Do you believe that the elderly would be as confident in using the CPI-U to determine COLA increases as they would be in a separate CPI-E, which would reflect only their costs?

Presently, the elderly do not have confidence in the current inflation index that is used to calculate their COLAs. Retirees know that the 1.3 percent increase they received January 1, 1987, was used almost entirely to pay for the monthly increase in Medicare part B premiums. Given the severity of the problems in the medical care component calculations in the CPI and that these problems would be transferred into the CPI-E calculations, the elderly would quickly loose confidence in the CPI-E if it also fails to reflect the prices they pay.

Again, AARP appreciates the opportunity to comment on this important topic. If you have further questions or need additional information on AARP's recommendations concerning the Consumer Price Index for the Elderly, please contact Dr. Kathleen Scholl of AARP's Public Policy Institute at 728-4705.

Sincerely,

John C. Rother
Director
Division of Legislation, Research,
and Public Policy

Item 3

United States Senate
SPECIAL COMMITTEE ON AGING
WASHINGTON, DC 20510-6400

July 8, 1987

The Honorable Janet Norwood
Commissioner
Bureau of Labor Statistics
United States General Accounting Office Building
441 G. Street N.W.
Washington, D.C. 20212

Dear Dr. Norwood:

Thank you for appearing before the Senate Special Committee on Aging on June 29 and testifying about a Consumer Price Index for the elderly. Your testimony was helpful and we appreciated having the benefit of your views.

Due to time constraints during the hearing, I was unable to raise as many questions as I would have liked. Because I believe they are important, I would like to request your cooperation in answering the following questions:

1. During the hearing, we discussed the fact that the BLS recently made several revisions in the CPI, including downweighting the medical component. Would you please explain the reasons why BLS downweighted the medical component at a time when the elderly are not in need of fewer medical services and when inflation continues to consistently raise the general inflation rate?

2. In my opening statement, I noted that because the BLS only reweights the CPI every decade, the increases in Medicare premiums to pay for the new catastrophic legislation won't show up until then.

   a. Are you concerned about this?

   b. How can we make sure the premium is adequately weighted in the medical component of the CPI?

   c. Is it possible to revise the index more often?

3. In your testimony, you mentioned several different options that would be available to develop a CPI for the elderly. You did not specifically recommend one over another, but you left the impression that if Congress wanted to develop such an index, it should be willing to pay for a very complicated and comprehensive new index.

a. Why is this the case?

b. Would you please give us a cost estimate of each of the options you outlined in your testimony?

The Aging Committee is keeping the hearing record open and will be placing our follow-up questions and your answers in our print of the hearing's proceedings. It is our intention to submit these additions to the record by July 31, 1987. Therefore, we request that you relay your answers to the above questions prior to that date. Once the hearing print is published, we will be sure to send you a copy.

Your continued cooperation in this matter is appreciated and we look forward to your responses.

Best regards.

Sincerely,

John Melcher

Chairman

U.S. Department of Labor

Commissioner for
Bureau of Labor Statistics
Washington, D.C. 20212

Centennial
of Labor
Statistics

JUL 27 1987

Honorable John Melcher
Chairman
Special Committee on Aging
United States Senate
Washington, D.C. 20510-6400

Dear Mr. Chairman:

I appreciated the opportunity to appear before the Senate Special Committee on Aging to discuss technical aspects of the measurement of price changes faced by older Americans. This is an important issue and it is likely to receive even greater attention as the proportion of older persons in our population continues to increase.

As I indicated in my testimony, the Bureau of Labor Statistics (BLS) is a service organization and we are prepared to assist policymakers in Congress and the Executive Branch with relevant and accurate statistics and interpretation. In this context, I would like to emphasize our concern that an experimental reweighting of the Consumer Price Index (CPI), based solely on existing data would not be comparable in accuracy to the official CPI--one of the most complex and highly regarded statistical programs conducted by the Federal Government. The potential use of an experimental index of lesser quality to escalate retirement benefits is bound to raise many questions. This issue of credibility was, I recall, discussed by Arthur Flemming at the hearing.

In response to the first question raised in your July 8 letter, the CPI is based on a sample of all goods and services which people buy for day-to-day living. In order to maintain the relevance of the CPI to current economic conditions, this sample market basket is periodically updated to account for changes in consumer spending. This is a long-standing practice, usually conducted at ten-year intervals, which reflects the fact that, for a variety of reasons, consumer spending habits change over time.

I think it is very important to note that construction of the CPI market basket is based on the empirical evidence, derived from surveys of households, of how consumers actually spend their money. These surveys and the new CPI expenditure weights which are derived from them, are comprehensive and cover all the goods and services purchased for daily living.

The revised market basket is based on spending during the years 1982-1984; the old one, on the years 1972-1973. Spending on medical care by individual consumers, government, and employers, increased substantially in that decade. However, employers and government paid a much larger share of the total medical bill in the later period. Thus, expenditure data show that medical spending by individual consumers, as a proportion of their total spending, was smaller in 1982-1984 than it was a decade earlier. The CPI, which is a measure of the general rate of inflation, thus appropriately reflects the fact that individual consumer expenditures for medical care have declined as a proportion of total consumer expenditures.

You also asked about the impact of increased Medicare premiums on the CPI. I assure you that any time there are rapid and substantial changes in the way consumers spend their money the BLS becomes concerned about the need to revise the market basket.

We are fortunate in now having an ongoing Consumer Expenditure Survey so we can monitor changes in spending patterns. If there were substantial and significant changes, then BLS might recommend a revision earlier than the tentative 1997 date for introduction of a 1992-1994 market basket. While it would be possible to revise the index sooner, such undertakings are expensive and should be undertaken only with clear, compelling evidence of the need.

In terms of the third question, it would be possible to construct an experimental index using data currently available from the Consumer Expenditure Survey and prices collected for the existing CPI. Such an index would have a number of shortcomings that I have discussed in detail in my prepared statement. It would not be based on the outlets used by the older population; it would not include the specific varieties of items that they purchase; and it would not include the proper effects of special pricing and discounts for senior citizens. The impact of these shortcomings on the experimental index are not known, but are clearly of potential importance.

If the Congress were to legislate the construction of such an experimental index, BLS would, of course, produce the best one possible. But, because of the inherent inadequacies in that index, I believe it ought to be accompanied by a parallel research program. This research would be focused on: first, developing appropriate methods for obtaining the outlets used and item varieties purchased by the older population, and, second, investigating the importance of these differences in constructing a CPI.

This research effort would help to (1) determine the cost of developing a full CPI for the elderly and (2) provide appropriate evidence on whether such an index is likely to show any differences in price change for the elderly population. Some of this research could be conducted using existing techniques and results from that piece of the effort could be reported within two years. But part of this work would require design and validation of new survey research techniques, using them on rather substantial samples, and applying sophisticated processing and analysis. That could take up to 5 years. We have not had an opportunity to develop careful cost estimates for this program of research, but one could expect to spend in the neighborhood of $2 million in each of the next 5 years.

If one were to set out to construct an accurate CPI for the elderly, a research effort should also be undertaken first to develop and validate the methods. At that point better estimates of cost could be prepared. In addition, other design parameters would need to be specified. Should the index be monthly, or would quarterly averages be acceptable? Should the index be as accurate as the CPI-U? As accurate as the CPI-W? Or only half as accurate as the CPI-W? Once the basic research was completed and the periodicity and precision of the required index were specified, then costs could be calculated. Since the older population is a small proportion of the total population and existing survey methodologies would need to be refined to locate and survey this group, the cost would be much higher than might otherwise be expected. Thus, for some of the possibilities these costs could be more than double the $45 million spent to revise the existing CPI, and very substantial annual maintenance and production costs would be incurred if such an index were to be produced on an ongoing basis.

Costs would be less for an index with reduced frequency or lower precision. A potential cost saving would be legislation that permitted us to draw samples of older Americans from the Social Security files. The process would also be less costly if the research showed little variability between the elderly and the overall population in items and outlets selected.

I hope this response has answered the questions raised in your July 8 letter. If I can be of any further assistance please let me know.

Sincerely yours,

Janet L. Norwood

JANET L. NORWOOD
Commissioner

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