

## Preliminary Estimate of the Budgetary Effects of Using the Chained CPI for Mandatory Programs and the Tax Code Starting in 2014

These estimates assume the policy is enacted by October 1, 2013. The estimates are subject to change, depending on legislative language.

(Billions of dollars, by fiscal year, relative to CBO's February 2013 Baseline)

March 1, 2013

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014- 2018	2014- 2023
<b>Changes in Direct Spending (Outlays)</b>												
Social Security	-1.6	-3.7	-6.0	-8.5	-11.2	-13.8	-16.5	-19.2	-22.0	-24.8	-31.0	-127.2
Other COLA Programs <sup>a</sup>	-0.5	-1.2	-2.0	-2.6	-3.1	-4.0	-4.8	-5.5	-6.6	-7.0	-9.5	-37.5
SNAP Interaction (COLA programs) <sup>b</sup>	*	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.7	2.8
Health Programs <sup>c</sup>	-0.2	-0.5	-1.0	-1.4	-2.1	-2.7	-3.8	-4.6	-5.5	-6.7	-5.2	-28.5
Refundable Tax Credits	0	-0.3	-0.6	-1.3	-1.8	-1.7	-2.4	-2.8	-3.3	-3.7	-4.1	-17.9
Other Federal Spending <sup>d</sup>	*	<u>-0.2</u>	<u>-0.4</u>	<u>-0.6</u>	<u>-0.8</u>	<u>-0.9</u>	<u>-1.0</u>	<u>-1.1</u>	<u>-1.2</u>	<u>-1.3</u>	<u>-2.1</u>	<u>-7.8</u>
Total, Direct Spending	-2.2	-5.9	-10.0	-14.3	-18.7	-22.9	-28.1	-32.8	-38.2	-43.0	-51.2	-216.0
<b>Changes in Revenues</b>												
Total, Revenues <sup>e</sup>	1.2	2.6	5.5	7.8	9.4	13.0	15.8	19.2	22.7	26.3	26.5	123.7
<b>Net Increase or Decrease (-) in the Deficit</b>												
<b>Total, Deficits</b>	<b>-3.4</b>	<b>-8.5</b>	<b>-15.4</b>	<b>-22.1</b>	<b>-28.1</b>	<b>-35.9</b>	<b>-44.0</b>	<b>-52.0</b>	<b>-60.8</b>	<b>-69.3</b>	<b>-77.7</b>	<b>-339.8</b>
On-Budget	-1.9	-4.8	-9.4	-13.6	-17.0	-22.1	-27.4	-32.7	-38.6	-43.9	-46.7	-211.5
Off-Budget <sup>f</sup>	-1.6	-3.7	-6.0	-8.5	-11.1	-13.8	-16.5	-19.4	-22.3	-25.4	-31.0	-128.3

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Notes: \* = costs or savings of less than \$50 million; details may not add to totals because of rounding.

COLA = cost of living adjustment; SNAP = the Supplemental Nutrition Assistance Program.

The proposal would replace the consumer price index (CPI) with the chained CPI for all adjustments that are statutorily tied to the CPI in mandatory programs and the tax code. The chained CPI is a measure of inflation calculated by the Bureau of Labor Statistics (BLS) that is designed to account fully for changes in spending patterns, such as responses to changes in the prices of different goods. CBO estimates that the annual update for inflation using the chained CPI-U (the chained consumer price index for all urban consumers) would be 0.25 percentage points less, on average, than the update using the CPI-U (the consumer price index for all urban consumers) or CPI-W (the consumer price index for urban wage earners and clerical workers), based on the historical differences between the chained CPI-U and the CPI-U or CPI-W. The actual difference in any year could vary noticeably from that average.

In this estimate, we assume that the chained CPI-U would be used in place of the CPI-U and the CPI-W. BLS also calculates components of the CPI, such as the CPI for medical care and the CPI for food away from home. In programs that use CPI components for indexing, we assumed that chained versions of those components would be used. We also assume that the chained CPI would be used to make annual adjustments to the poverty thresholds and guidelines, which affects eligibility for certain federal benefits. This estimate includes only effects on direct spending and revenues, and does not include effects on spending subject to appropriation.

CBO assumes that the proposal is enacted by October 1, 2013, and becomes effective in calendar year 2014. For Social Security and other COLA programs, the estimate assumes that the chained CPI is used to calculate benefits paid starting in January of 2014. We assume the chained CPI is used to index parameters of the tax code in the tax year that begins after December 31, 2013. For programs that make adjustments at other times during the year, we assume that the chained CPI is used for any adjustment made in January of 2014 or later.

- a. Other COLA programs include civil service retirement, military retirement, Supplemental Security Income, veterans pensions and compensations, and other retirement programs with COLAs triggered directly by Social Security or civil service retirement.
- b. CBO estimates that the proposal would reduce income to individuals who also receive benefits under SNAP. Because SNAP benefits are calculated based on a formula that considers income, a decrease in income will increase SNAP benefits.
- c. Primarily includes changes to various payments and collections in Medicare and Medicaid, and changes in outlays associated with subsidies for health insurance purchased through exchanges and other health insurance provisions established under the Affordable Care Act (ACA). Includes the effects in health programs of using the chained CPI for updates to the federal poverty guidelines.
- d. Includes changes to various benefits and levels in other federal programs, such as Pell grants and student loans, SNAP, and child nutrition programs. Also includes the effects in non-health programs of using the chained CPI for updates to the federal poverty guidelines.
- e. Includes revenue changes from indexing parameters of the tax code and changes in the revenue portion of refundable tax credits for health insurance purchased through exchanges, as well as other effects on revenues of ACA provisions related to insurance coverage.
- f. Off-budget changes reflect both changes to outlays of Social Security benefits and changes to Social Security revenues.