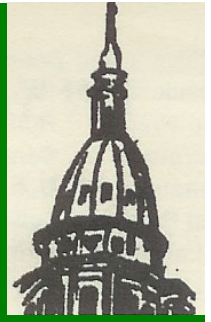


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SPARTAN SENIOR

A newsletter for Michigan State University Retirees

LANSING AREA LOCAL EDITION November-December 2013

You Need to Learn about the “Chained CPI”

As this issue of the Spartan Senior goes to press, most of the federal government is shut down and there are questions of whether or not Congress will increase the debt limit to prevent a default on federal debts. For many Americans the result of this has been mild inconvenience; for others it has brought economic pain. If the impasse continues, more people will feel the effects. Retirees have been largely insulated from the effects of the shut down in its first week or so, but they will need to pay close attention during the deal making in Washington when our government finally resumes normal operations. Many journalists who are following the news have focused on the “Chained CPI (Consumer Price Index)” as an important element in any deal that might be made to resolve the situation in a more permanent way.

Our government uses several consumer price indexes created by the Bureau of Labor Statistics as a measure of inflation. The most prominent of these is the CPI-U, which estimates the cost of living for the average urban consumer. The CPI-U is based on a standard “market basket” of 211 different goods and services in 38 different geographic areas that is priced each month. The weightings used to compute the CPI-U are updated every two years. A related index called the CPI-W is based on a smaller population consisting only of urban wage earners, and it is the index used to compute Social Security cost of living adjustments.

In 1996 a federal study commission argued that the CPI-W was overstating the actual effects of inflation, and therefore costing the government too much money in cost of living adjustments. The Bureau of Labor Statistics responded by making some changes to its basic CPIs. In 2002 it created the Chained CPI, which it christened the C-CPI-U. We will just call it the Chained CPI here, to avoid alphabet overload.

The Chained CPI rebalanced its market basket of goods and services each month rather than waiting for January of the next even numbered year. To illustrate this, suppose the price of Granny Smith apples rises astronomically, and Mrs. Average Consumer had been insisting on Granny Smiths because they make a good pie. The old CPIs would allow the market basket to shift to Red Delicious apples to save money, but only in January of the next even numbered year. Suppose all apples had risen in price, but oranges were a bargain. The Chained CPI would shift the market basket from apples to oranges in the *next month after the price increase*. Mrs. Average Consumer might not have a recipe for orange pie, but the orange is still a nutritious fruit. It was the rapid response to inflation, the chaining from month to month that gave the Chained CPI its name.

We now enter the arena of political debate, and we will try to summarize the arguments for and against the Chained CPI presented in two documents readily available on the internet. We will cite these documents so you can find them, and we will attempt to embed live links in the electronic version of this newsletter so that you can find them quickly on a computer. One of the best arguments in favor of the Chained CPI is presented in the paper “Measuring Up: The Case for the Chained CPI,” by Marc Goldwein, Jason Pequet, and Adam Rosenberg. It resides on the web site of the Committee for a Responsible Federal Budget. Use the link <http://crfb.org/document/measuring-case-chained-cpi>. One of the

—Chained CPI, continued

best arguments against the Chained CPI is made by John Miller, in his article “The Chained CPI is Bad for Seniors and for Accuracy.” It can be found on several web sites, one of which is Dollars and Sense: Real World Economics. Use the link <http://dollarsandsense.org/archives/2013/0513miller.html>.

To better understand the arguments for and against, it is important to know that the CPI is used to index Social Security and veterans benefits, benefits to the disabled, and many aspects of federal income tax. There is a nice table in the Goldwein et al article that shows all of them. So we are talking about a huge amount of money. Supporters of the Chained CPI say it would save the federal government a great deal of money by reducing cost of living increases built in to federal benefit programs. The Goldwein et al paper says it would save approximately \$ 390 billion in its first ten years. This seems entirely possible. They argue that this saving is made through increased accuracy of the index, not through any reduction of benefits actually needed to counter the effects of inflation.

Opponents of the Chained CPI say that it would have unduly harsh effects on very old people, the disabled, veterans, and women. The basic reason for this is that the Chained CPI would build in a cumulatively lower cost of living increase year after year. You have heard about the benefits of compounding – this would be negative compounding. Opponents argue that women would suffer because they tend to have smaller savings than men, and they also tend to live longer. The disabled would suffer, they say, because disabled people start receiving benefits before the age of 65, and they would spend more years in the benefit program. Opponents argue that old people tend to use more medical services than younger people, and medical services have gone up well beyond the average pace of inflation for more than a decade. They argue that the senior citizen who needs hospitalization and surgery, or home health aide care, does not have the ability to economize in the same way that a shopper can switch from Granny Smith apples to oranges. Indeed, the Bureau of Labor Statistics has created a CPI-E (Consumer Price Index for the Elderly) in an effort to portray the actual living expenses of old people. This index, however, has not gained traction with Washington politicians. As a retiree, you need to keep an eye on the Chained CPI debate and it might be a good idea to communicate your views to your elected officials.

—Al LeBlanc

Put Our Coming Meetings on Your Calendar

November 11—Chris Smith, from the MSU Alumni Association, on MSU’s new Evening College

December 9—Jon Backus, from the MSU Museum, on the museum’s unique Christmas Collection

January 13—Beth Donaldson, from the MSU Museum, on quilts

February 10— Ginny Haas, from Community Relations, Office of Governmental Affairs, MSU, on the university’s involvement in local community enrichment and development activities.

All meetings begin at 2:00 PM in the Community Room of the MSU Federal Credit Union at Farm Lane and Mt. Hope Road, East Lansing. For more information, follow our web site and Facebook page.

The Affordable Care Act and You

"To the best of our knowledge, your benefits as a retiree of MSU will remain the same even though there are significant changes that will impact current employees. If at any time changes occur that will impact retiree benefits, we will make sure you are notified." —MSU HR Department

MSU Community Campaign

The MSU Community Campaign mailer will soon be reaching you. Please remember the good work done by this charitable program and consider making a donation.



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Different Paths in Retirement?

As we reconnect with old friends who have been retired for a while, it is notable that some have chosen to largely continue their career at MSU, but without the time obligations and the pay check, while others have struck out in new directions that are totally different from what they did at the university. We would like to highlight some of the most interesting paths that our people have taken in retirement. If you would like to participate, please send a summary of what you have been doing in retirement to Al LeBlanc, Editor, at aleblanc@msu.edu, or leave a phone message at (517)655-6454, or mail paper copy to Al at MSU Retirees Association, Suite 22 Nisbet Building, MSU, 1407 S. Harrison Ave, East Lansing, MI 48823-5239.

Old Newsboys Fund Raiser Approaching

Please remember the Lansing Old Newsboys Association. Their sale of the Lansing Spoof Journal is Thursday, December 5. If you have questions, please call Brenda Spackman @ 651-9101 or go to the Old Newsboys web site; lansingoldnewsboys.com to look for information. Also, remember, all money raised the day of the sale is used locally.

—Brenda Spackman

Newsletter Costs on the Rise

How to Subscribe or Donate to MSURA

Because of changes in postal regulations, our costs to mail the paper version of our newsletter have risen dramatically. A form that you can cut out and use to subscribe appears on page 11 of your last newsletter, the Fall 2013 International Edition. You can also subscribe by going to our web site <http://retirees.msu.edu/>. Click on Newsletters, then click on Newsletter Subscription Form, that will be on the right side of the newsletters page. Remember that you can always tell us to stop mailing a paper copy because you will read the newsletter on the internet, and if you do you will see it about two weeks sooner and in color. We will still need donations in order to mail a paper copy to those who do not use the internet. You can donate to MSURA on the same web site. On either the main page or the newsletter page, click on Help Improve MSURA: Make a Tax Deductible Donation. This will appear about half way down on the right side of the page. We will print a paper form that you can use to make a donation in our next newsletter. Thank you!

Knitting Group Makes Good Use of Donated Yarn

It is not often that the Knitting Group gets to give a huge thank you to the wonderful generous people who donate money, yarn, patterns and material to the cause. With your help we are able to help those less fortunate and bring a little comfort and warmth to our fellow Lansing neighbors who so desperately need it. We have knitted more than 22,000 items to help the homeless and others who need the things we make. If you would like to come and knit with us we meet every other Tuesday from 1:00-4:00 p.m. in room 27 of the Nisbet Building or call Rosemary Pavlik at (517)882-2030 and find out what's happening.

—Rosemary Pavlik

**MSU RETIREES ASSOCIATION
SUITE 22 NISBET BUILDING MSU
1407 S. HARRISON AVE
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5020 Northwind, Suite 107
East Lansing, MI 48823

(877) EDU-403B
info@myRplan.com
<http://www.myRplan.com>

SPARTAN SENIOR Local Edition, MSU Retirees Association, Suite 22 Nisbet Building, MSU, 1407 S. Harrison Ave, East Lansing, MI 48823-5239. Tel (517) 353-7896. e-mail: msura@msu.edu. Editor Al LeBlanc (655-6454); Production Stephanie Barch
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