Low COLA: The pause that doesn’t refresh

By Kerry Pechter *Fri, Nov 1, 2013*

Since 2000, Social Security benefits have lost 31% of their buying power, according to The Senior Citizen League's 2013 Survey of Senior Costs. During that period, benefits rose 38% but typical expenses for the elderly rose an estimated 81%.

With the 2014 cost-of-living adjustment (COLA) for Social Security payments set at just 1.5%, the annual boost has fallen to about half the rate that it averaged for the period from 1980 to 2010, according to an analysis by The Senior Citizens League (TSCL).

The record low COLAs are reducing the Social Security income of future as well as current beneficiaries, according to the TSCL. “Retirees have lost almost a third of the buying power of their benefits, and low COLAs will also result in lower initial retirement benefits even if seniors haven’t filed claims yet,” says TSCL Chairman, Ed Cates.

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Seniors who haven’t claimed benefits yet are also affected Because COLAs are used in the benefit formula to determine the initial benefit amount, future Social Security beneficiaries will also be affected, the group said in a release. Because COLAs compound over time, the impact of low COLAs today reduce total lifetime benefits geometrically.

TSCL calculates that seniors with an average monthly benefit of $1,200 would lose about $2,667 over the first ten years, and the benefit after 10 years would be $1,439 instead of $1,482. In 20 years, the cumulative benefit loss would reach $11,981, and the monthly payment would be $1,833 instead of $1,943. By the end of 30 years the aggregate loss in benefits would be $31,747 and the monthly payment would be $2,346 instead of $2,561.

Social Security has already begun paying out more than it receives in payroll taxes, and relies on interest earned on the Trust Fund’s $2.7 trillion in U.S. Treasuries to cover the shortfall. But with the overall federal budget is in deficit, the government must borrow in order to pay that interest.

Enter the debt ceiling. “That borrowing is subject to the debt limit,” Cates said in the release. “The government will again hit the debt limit by February 7th and seniors should be concerned.”

TSCL opposes cutting the COLA or basing COLAs on a less generous “chained CPI.” According to a TSCL survey, over 78% of seniors “favor, or somewhat favor” a requirement that the Social Security taxes should be levied on all wages, not just wages $113,700 or less. Such a change could reduce Social Security’s financing debt by up to 90%, according to Social Security’s Office of the Actuary.

Under current law, workers pay Social Security taxes of 6.2% on 100% of income (and employers match that amount) up to $113,700 per year. Those earning $320,000, for instance, will pay Social Security taxes on just $113,700, or only 36% of earnings.

“Congress should not ask seniors to take deep cuts while continuing to hand out a huge Social Security tax break to high income earners,” Cates says.