No cost-of-living raise for 59 million US elderly

A reporter
12 October 2010

The US Social Security Administration will announce this week that nearly 59 million people receiving benefits will get no cost-of-living raise next January to compensate for inflation. This marks the second consecutive year that Social Security checks have been frozen at the level set in January 2009.

Cost-of-living adjustments are set based on a formula established by Congress in 1973. The inflation rate is measured by the Bureau of Labor Statistics (BLS) in the third quarter of each year, compared to the same period the year before. While the official BLS report is not issued until Friday, October 16, it has already been widely reported that the inflation figure will be below the level needed to trigger a raise in Social Security payments.

Because of the sharp run-up in gasoline prices in the summer of 2008, the cost-of-living adjustment calculated in October 2008 and paid in January 2009 was the largest in 27 years, 5.8 percent. But since then, gasoline prices have plunged from $4.00 a gallon to a national average of $2.70, holding down the inflation index.

Since the elderly drive less than the general population, they benefit less from the decline in gas prices. On the other hand, they spend much more than the average on health care services and prescription drugs, whose prices continue to rise steadily.

The economic stimulus bill passed in March 2009 provided a $250 payment to Social Security recipients, incorporated in the legislation because it was already anticipated that there would be no cost-of-living raise. The one-time payment was the equivalent of a 2 percent rise in the average Social Security check of $1,072 a month.

The Obama administration proposed a second one-time payment to offset a second year without a cost-of-living raise, but this was blocked in the Senate by an alliance of 40 out of 41 Republicans, 12 conservative Democrats, and right-wing Independent Democrat Joseph Lieberman of Connecticut.

Millions of elderly people have seen the value of their homes and retirement savings collapse, and now will be told, barely two weeks before the November 2 election, that their Social Security benefits will be frozen for a second consecutive year. Social Security is the primary source of income for 64 percent of recipients. For one third of recipients, Social Security constitutes 90 percent or more of their annual income.

The freeze is only a foretaste of what is to come, under the austerity policies backed by both the Democrats and Republicans. In December, one month after the election, a bipartisan commission on the federal budget deficit appointed by President Obama is to present a report on the “reform”—i.e., drastic cutting—of entitlement programs like Social Security Medicare and Medicaid.

Its recommendations are expected to include both restrictions on eligibility, such as raising the retirement age, and cuts in benefits, including a new formula for calculating cost-of-living increases that will be based on wages, not prices, and will therefore leave the elderly more vulnerable to inflation.

One of the top Democratic Party budget experts on the deficit commission, former Clinton budget director and Federal Reserve governor Alice Rivlin, is openly advocating a combination of actual benefit cuts and raising the age of eligibility from 66 to 70.

Efforts by liberal Democrats in Congress to forestall a recommendation for cuts in Social Security have attracted notably little support. Only 100 House Democrats, out of 255, co-signed a letter to Obama rejecting any benefit cuts or eligibility restrictions in the program. A resolution along similar lines by independent Vermont Senator Bernie Sanders attracted only 12 of the 59 Senate Democrats.

In a joint appearance on Fox News Sunday, House Republican whip Eric Cantor and House Democratic deputy whip Debbie Wasserman Schultz refused to rule out raising the retirement age for Social Security as part of a bipartisan deal after the election. “We intend to deal with the real question of long-term fiscal sustainability of those programs and hence our economy,” said Cantor.