Written by Thomas R. Eddlem on October 11, 2010

No Social Security COLA Next Year

Social Security recipients will go a second consecutive year without receiving a cost-of-living adjustment in 2011, according to various press reports. The announcement, which will formally be made when the federal government reveals Consumer Price Index figures October 15, amounts to what MSNBC says in the subtitle to its article on the subject that the "expected announcement before election couldn't be worse for Democrats."

Social Security recipients received a one-time $250 bonus from President Obama's "stimulus" package this year after it became apparent that the necessary legal threshold for a COLA (cost of living adjustment) wouldn't be met. In general, the Consumer Price Index must increase by three percent year-over-year for the COLA to kick in.

MSNBC explained that the last increase was in 2008, but since then "energy prices quickly dropped. For example, average gasoline prices topped $4 a gallon in the summer of 2008. But by January 2009, they had fallen below $2. Today, the national average is roughly $2.70 a gallon."

The news that Social Security recipients will not get an annual increase to keep up with the two-percent inflation this year comes as the Social Security Commissioners trustees' report that 2010 will be the first year since 1983 that Social Security payouts exceed FICA payroll taxes. The commissioners noted that "the combined OASDI Trust Funds have a projected 75-year actuarial deficit equal to 1.92 percent of taxable payroll" and "Medicare's HI Trust Fund has a projected 75-year actuarial deficit equal to 0.66 percent of taxable payroll" into the indefinite future. The main Social Security trust fund (OASDI) is expected to run out of funds in 2037. What that means is that benefits will have to be cut further, or taxes will have to be drastically increased just in order to keep current benefit levels.

Social Security already pays far less benefits than a comparably-funded private fund when current Social Security benefit levels are assumed, even when one assumes unfavorable circumstances for a private fund, such as retirement at the bottom of a bear stock market. Now the spending power of Social Security benefits will be cut an additional two percent this year, and the program itself remains financially insolvent by the admission of the Social Security commissioners themselves.