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**Don't Sweeten the COLA
October 15, 2010**

Today, the Social Security Trustees announced there will be no cost-of-living increase for Social Security benefits next year. This will mark the second year in a row that there has been no cost-of-living adjustment (COLA) and benefits have remained flat.

While we will hear plenty of stories about the hardships this will create, we must keep in mind what COLAs are: an increase in benefit levels to allow them to keep pace with inflation. Given current economic conditions and past COLA increases, there is no economic justification for providing a COLA this coming year.

Benefits were last adjusted in 2009. The inflation adjustment was an uncharacteristically high 5.8 percent increase, based on data from the third quarter of 2008, which showed high levels of inflation due largely to high energy prices in the summer of 2008. But prices fell drastically in late 2008 and 2009 as a result of falling energy prices and the economic downturn. Even though prices increased slightly this year, they have not returned to the levels reached in the third quarter of 2008—the level that prices would have to exceed to warrant a new COLA. Because of that high adjustment, seniors are still receiving more in benefits than actual inflation increases have warranted.

“This is an issue ripe for political pandering—and there is sure to be plenty of that—but the truth is, seniors don't need a raise based on inflation this year because inflation has been so low. They actually got an artificially high raise last time around so they are faring better than many others in this economy who haven't benefited from generous raises,” said Maya MacGuineas.

In fact, Social Security benefits are protected from deflation and are not adjusted downward when prices fall. If benefits were adjusted in both directions, benefit levels this year would have been roughly \$250 lower on average for each retired beneficiary and his or her family.

Last year, the Obama Administration and some lawmakers called for a one-time payment for seniors, and a few such proposals have already been offered this year.

“Policymakers must resist all calls for any sort of COLA,” added MacGuineas. “With the election around the corner it is tempting politically to send checks to seniors, but not fiscally responsible. The Social Security Trustees recently told us we need to make changes to shore up the program—now is not the time to make changes that would instead weaken its already shaky finances.”

“This issue can be seen as a litmus test for fiscal responsibility. Let’s hope politicians prove more committed to addressing the nation’s fiscal challenges than to pandering to influential voters.”