

Insurance Times: Social Security pay goes up by smallest amount in years

October 29, 2002, Vol. XXI No. 22

WASHINGTON (AP) — The 46 million Social Security recipients will get the smallest increase in their benefit checks in four years come January, a 1.4 percent rise that translates to just \$13 a month more for the typical retiree.

About one-third of that will be eaten up by an increase in monthly Medicare premiums.

The announcement of Social Security's modest cost-of-living adjustment, coupled with word that monthly Medicare premiums next year will go up by \$4.70 to \$58.70, left many retirees worried Friday about how they will pay their bills.

Many already were in severe trouble because declines in stock prices this year have wiped out trillions of dollars in investments.

"Some of our friends, they've seen their (401(k) accounts) lose over 50 percent, and now they're concerned whether they can stay retired," said Ellen Long, 74, a former math and reading tutor in Fort Collins, Colo. "Right now, we're holding our breath."

Ray Owens, a former church administrator in Columbia, S.C., said he and his wife decided to retire early this year and had hoped to use their investments to supplement their Social Security earnings.

"Of course, right after that all hell broke loose, and the stock plummets," said Owens, 67, who has had to cash in some of his investments to meet expenses. "We're having to dig into the golden goose."

Advocacy groups for older Americans said retirees were being caught in a squeeze between retirement savings plummeting because of the falling stock market and medical costs continuing to soar. That problem is made worse by Congress' failure to pass legislation this year that would have added drug coverage to Medicare.

"For millions of people without drug coverage, this 1.4 percent cost-of-living increase is not going to even come close to the soaring cost of prescription drugs they are facing," said David Certner, director of federal affairs for AARP, formerly known as the American Association of Retired Persons.

The 8.7 percent increase in monthly Medicare premiums is mandated by Congress so that premiums will cover 25 percent of the cost of the health care program for the elderly. Those premiums were set at \$3 a month when Medicare began in 1967.

Social Security's 1.4 percent cost-of-living increase, which also will go to 7 million recipients of Supplemental Security Income, the government's cash assistance program for the poor, is the smallest since a 1.3 percent rise in 1999. This year's benefits boost was 2.6 percent, and in 2001 it was 3.5 percent, the biggest rise in nine years.

The country's first recession in a decade last year and this year's stop-and-go recovery have combined to keep the lid on inflation, which means a smaller cost-of-living adjustment for government benefits.

Social Security Commissioner Jo Anne Barnhart called the containment of inflation "certainly good news for the elderly and disabled," since those living on fixed incomes suffer most from rising prices.

The announcements came in the closing weeks of a hard-fought campaign for control of Congress in which both parties have tried to use Social Security's financial plight to their advantage.

Two years ago, President Bush campaigned for the White House on a program that would have privatized Social Security partially by allowing younger workers to divert part of their Social Security taxes into personal investment accounts.

With the plunging stock market, however, Democrats have accused Bush and Republican supporters of the approach of putting retirees' pension benefits at risk. The GOP counters that Democrats have failed to

propose a plan to bolster the government's biggest benefit program, which is facing a severe cash crunch with the retirement starting in the next decade of the baby boom generation.

Most experts believe the next Congress will remain deadlocked over the issue as the return of federal budget deficits means little money will be available to close the financing gap.

"Neither side is willing to face the fact that it takes money to fix the problem," said David Wyss, chief economist at Standard & Poor's in New York.

Starting in 1975, monthly Social Security checks have been adjusted automatically to protect retiree benefits from being eroded by inflation. The increase is based on the rise in the Consumer Price Index from the July-September quarter of one year to the next.

With last week's announcement, the average monthly check for individual retirees will rise from \$882 currently to \$895 starting in January. The average retired couple will see monthly checks go from \$1,463 to \$1,483, an increase of \$20.

The 1.4 percent increase for the needy receiving SSI payments will translate into a maximum payment of \$552 a month for an individual, an increase of \$7. For a couple, the maximum payment will rise to \$829 a month, an increase of \$12.

Social Security also announced that for working Americans, the maximum annual earnings subject to Social Security taxes next year will rise to \$87,000 from \$84,900 currently. This change will affect about 9.7 million of the 155 million workers paying Social Security taxes.