

CCH Says the Good News Is No Cut in Social Security Benefits

If it's any consolation, Social Security old age and disability benefits will not be reduced next year despite a drop in the cost of living since the third quarter of 2008, according to CCH, a leading provider of tax, benefits and payroll law information and software and a part of Wolters Kluwer Law & Business.

"Social Security law provides for a cost-of-living adjustment, or COLA, based on changes in the consumer price index for urban wage earners and clerical workers from the third quarter of one year to the next, but the adjustment can only be positive," said Avram Sacks, JD, CCH Social Security law analyst. "The decrease in the index means that benefits will not rise in 2010 – the first time there's been no increase since the COLA was introduced in 1975."

The Social Security COLA is applied to several types of benefits: retirement, disability, and survivors – such as children and widow(er)s. Another type of benefit, the "maximum family benefit" is actually a threshold that is increased based on the rise in national average wages and is not impacted by the drop in the consumer price index.

An increase for 2011 is also not likely to occur, since it would be based on the price index from the third quarter of 2008.

"To produce an increase next year, we'd have to see a rise in the cost of living that first wiped out this year's decline and then increased from last year's level," Sacks noted.

"If it's any consolation, for 2009, beneficiaries saw a significant increase in their monthly checks over 2008. Last year at this time, inflation mandated a 5.8 percent increase – the largest percentage increase since 1982. What's more, for most beneficiaries, the Medicare Part B premium did not rise for 2009," Sacks said.

Help from a Second Stimulus?

President Obama has proposed that Social Security beneficiaries receive a \$250 check next year, similar to the one provided in 2009 as part of economic stimulus legislation.

"This lump sum would work out to be the equivalent of about a 1.8 percent increase in the monthly check for the average retired worker," Sacks said.

Significantly, the administration is not proposing that Congress mandate a COLA for actual benefits, Sacks observed.

"A COLA permanently increases the obligations of the Social Security trust fund, which is under considerable stress already," Sacks said.

Most Spared Medicare Part B Increase

There will be no increase in the Part B premium for most beneficiaries this year, as well, thanks to a

“hold harmless” provision that blocks premium increases when benefits do not rise. However, a relatively small number of Medicare Part B enrollees with higher incomes will pay a higher premium based on their income and new enrollees or beneficiaries who have not yet started paying Part B premiums can see an increase from the current premium level when they start Part B coverage.

“The increase in Medicare Part B Premiums for those affected might be significant, because, in effect, the law requires them to make up for the lack of increase for the large majority of beneficiaries,” Sacks said. “There’s legislation offering some relief to this group that has passed the House and is pending in the Senate.”

Earnings Limits Also the Same

The amounts that certain Social Security beneficiaries can earn without having their benefits reduced – “Retirement Test Exempt Amounts” in Social Security terminology – also will stay the same next year.

Workers under full retirement age of 66 who are receiving benefits can earn up to \$14,160 in 2009, or \$1,180 per month, without having their benefits reduced. A modified test applies to workers who reach the full retirement age of 66 in 2010. In each month before they reach full retirement age, these individuals may earn up to \$3,140 without having their benefits reduced. Once they reach full retirement age, benefits are no longer subject to any retirement test.

An “earnings test” for beneficiaries at full retirement age through age 69 was abolished by legislation in 2000.

“Beneficiaries age 70 and older have not been subject to benefit reductions based on earnings since 1983,” Sacks said.

No FICA Increase Now, But Just Wait

Highly-paid wage earners will see no increase in the current wage base of \$106,800 on which Social Security taxes are due for 2010. The amount of FICA (Federal Insurance Contribution Act) tax deducted from paychecks next year will be no higher than those on identical earnings in 2009.

The law states that there can be no increase in the FICA wage base if there is no COLA. But Sacks calculates that absent the prohibition, the wage base would have risen to \$109,200 for 2010.

“Although there is no wage base increase for 2010, and there likely will not be one for 2011, either, based on projections by the Social Security Administration, the first year that we will likely see a benefit increase – 2012 – will also be a year in which we will see a huge increase in the wage base,” Sacks said. “This is because the wage base formula for that year will take into account the cumulative increase in national average wages during the period wage base increases were barred due to the lack of a benefit increase.”