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Social Security

Bad News For Seniors, Good News For Some Workers

Janet Novack, 10.15.09, 04:30 PM EDT

Social Security pay won't automatically rise, but neither will tax.

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Edward Jones
MAKING SENSE OF INVESTING

The Social Security Administration announced Thursday that, as expected, recipients will get no cost of living increase in their benefits checks in 2010 because the consumer price index has fallen over the past year. This marks the first time since the "cost-of-living adjustment" was introduced in 1975 that seniors will not receive an automatic raise.

The law protects seniors from a cut in their checks when prices fall. Moreover, in lieu of a formal benefit increase, President Barack Obama and Democratic leaders have already said they want to send each senior a one-time \$250 check next year.

Meanwhile, there was some good news buried in the Social Security announcement for upper-income workers. After years of increases, the amount of wages subject to Social Security payroll taxes will stay constant in 2010 at \$106,800. The spike in energy prices (one component of the consumer price index) in 2008 led to a 5.8%

increase for 2009 in both Social Security benefits and the maximum salary subject to Social Security tax. The Social Security tax is imposed at a rate of 12.4%, with half of that deducted from workers' pay checks and half paid by employers. The Medicare levy, another 2.9%, is also split evenly between workers and employers and is imposed on all wages, with no upper limit.

A second piece of good news for workers came Thursday afternoon when the Internal Revenue Service announced it will not cut the maximum contribution to 401(k)s and other retirement plans. Benefit experts began warning in August that, barring a spike in inflation in September--a spike that didn't come--the maximum limit for employee contributions to 401(k)s could fall from this year's \$16,500 to \$16,000, and that other limits keyed to inflation could fall too. However, those experts also said the law seemed gray enough to allow the Treasury to issue a rule preventing a contribution limit cut.

One group of the elderly who could take a hit next year is better-off seniors who pay income-adjusted premiums for Medicare Part B, which covers doctors' visits and outpatient services. A provision in the law prevents 93% of seniors from having to pay a Part B premium increase in years when they

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get no Social Security increase. But that doesn't apply to the special, income-based higher premiums.

While the standard monthly Medicare Part B premium for 2009 is \$96.40 per person, singles with modified adjusted gross incomes of \$85,000 or above and couples with income of \$170,000 or above pay \$134.90 a month or more. The top premium this year, imposed on singles with income of \$213,000 or more, and couples with \$426,000 and up, is \$308.30 per person each month. The Department of Health and Human Services has not yet said how large the Medicare premium increases will be for the better-off, and it's possible Congress will limit this increase.

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In addition, many seniors who buy Medicare Part D drug coverage will pay higher premiums next year. According to an analysis by the Kaiser Family Foundation, the average premium charged by the stand-alone

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Medicare drug plans (meaning those that aren't part of broader Medicare Advantage private plans) will rise 11% next year to \$38.85 a month.

Nevertheless, in a statement Thursday, Maya MacGuineas, president of the Committee for a Responsible Federal Budget, dismissed the proposed \$250 checks for seniors as "pure political pandering." She pointed out that while prices, as measured by the CPI, fell 4% in the year through September 2009, seniors got a 5.8% benefits increase during 2009. "Even holding Social Security benefits steady means they will have increased in value," MacGuineas said. "There is no economic or moral justification for increasing them further."

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