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Obama's $250 Bonus Turns Social Security into Welfare

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Since Social Security recipients will get no cost-of-living adjustment (COLA) next year, President Obama wants to give each of them $250, a move supported in principle by the Republican House and Senate leadership. However, this move is not only unjustified; it makes a fundamental change to Social Security's structure and starts the process of converting the program from an earned benefit funded by a worker's own contributions to a welfare program.

While there will be no Social Security COLA, benefits will not decrease, despite the fact that the cost of living has gone down, thus increasing the amount that recipients can buy with their existing benefits. And the benefit would mean even larger spending in a year with record deficits. This new $250 payment would follow the earlier $250 payment that each Social Security recipient was paid through the stimulus package this year.

COLA Increase Not Justified, Nor Is the $250. Every January, Social Security recipients' benefits are adjusted for inflation to preserve the purchasing power of their benefits.[1] In January 2009, Social Security benefits increased by 5.8 percent, a number that mainly reflected the temporary increase in the price of oil for much of 2008, overstating the real cost of living increase experienced by seniors. However, this year the cost of living actually declined by almost 5 percent, and since there was no inflation, there will be no COLA in January 2010.

This does not mean that seniors and other recipients are worse off; far from it. First, their current benefit buys more than it did at this time last year. Second, most retirees will also not see an increase in their Medicare premiums.

By law, Medicare Part B premiums are to cover 25 percent of the cost of those benefits, while general revenues cover the other 75 percent. Part B premiums are deducted automatically from Social Security benefits but for most beneficiaries cannot increase in dollar terms by more than the increase in the Social Security COLA.[2] Thus, if Social Security benefits do not increase, then the Part B premium does not increase for most beneficiaries, even though the cost of the program increases.

This means that the share of Part B costs paid by recipients would drop below the 25 percent mandated by law and general revenues (i.e., the taxpayers) would have to pick up a higher share of Part B's costs.

As a result of the drop in the cost of living and the freeze in Medicare Part B premiums, AEI's Andrew Biggs has estimated that on average, Social Security recipients will receive an increase in purchasing power equal to about $725 next year.[3] Seniors on Social Security benefit from the reduction in the cost of living because the law freezes their benefits when prices drop. So in effect, seniors

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would get a raise, even though the cost of living has decreased.

Ironically, while Social Security recipients would be better off after receiving this proposed $250 bonus, Medicare's abysmal financing would deteriorate further because beneficiaries' premiums would remain frozen. The real losers are taxpayers, who would have to bear both the $13 billion cost of the $250 bonus and the higher general revenue payments to Medicare.

The $250 Payment Starts to Change Social Security into Welfare. Proponents of this increase tacitly acknowledge this fact when they base arguments in favor of the $250 payment on decline in 401(k) assets or housing values. While no one disputes that many retirees have a tough time getting by on Social Security, Social Security's COLA is strictly intended to make up for the effect of inflation on those benefit payments, not for any other changes to a retiree's income or net worth. Any attempt to use Social Security or its COLA to make up for a reduction in other assets or income starts to change Social Security into a welfare program.

Since Social Security started in 1935, its benefits have been earned and paid for by its own payroll taxes. A bipartisan consensus has preserved the fact that recipients are not receiving a gift from the government but rather a benefit based on explicit taxes paid by the worker. However, both the Obama proposal and that agreed to by Republican leaders breaks that connection.

The Obama plan would evidently pay for the $13 billion cost from general revenue taxes, while the Republican endorsed version would pay for it from unspent stimulus money. Either approach would spend money the federal government does not have, thus adding to the deficit. Both are steps on a slippery slope toward making Social Security a welfare program with benefits set by Congress rather than being based on the recipients' earnings. And the odds rise sharply that Congress will interfere with Social Security benefits any time that it wishes, even if its actions change the nature of the program and endanger the wide and bipartisan support that it enjoys.

Spending Money America Does Not Have. If Congress is determined to pay a $250 bonus to Social Security recipients—even though a fair and time-tested formula shows that it is not justified—then it should at least be honest with itself and the taxpayers by calling the payments what they are: welfare.

The goal of each generation is to make sure that its children and grandchildren have a better standard of living than their parents did. The seemingly innocent $250 payment is nothing less than taking $13 billion of this nation's children's money and paying it to current Social Security recipients. It is a poor legacy to leave future generations.

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1. Social Security COLAs are calculated based on the change in the consumer price index from the end of the third quarter of one year to the end of the third quarter of the next year. Thus, the January 2010 Social Security COLA will be based on the change in the CPI from September 30, 2008, to September 30, 2009. Since there will be no COLA in 2010, the law states that future COLAs will be calculated based on the change in prices from September 30, 2008.
2. This cap on the Part B premium does not apply to one in 20 beneficiaries (mostly upper-income recipients, subject to the income relating mechanism). Part D premiums are also deducted automatically from Social Security benefits, and the average annual increase for 2010 should be $93. However, Part D premiums can increase by more than the Social Security COLA. According to the Centers for Medicare and Medicaid Services, the annual increase for 2010 would be about $24.
3. See Andrew Biggs, "A Diet COLA for Social Security? Not Really," American Enterprise Institute, October 2009, at *http://www.aei.org/outlook/100076* (October 19, 2009).

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