Social Security COLA for 2019 Is 2.8 Percent, or $40 a Month

Starting in January, the 62 million Americans receiving Social Security will get a cost of living adjustment (COLA) in their benefit checks [of about $40 a month](). For three out of five of them, their check represents about half of their total monthly income.

For those waiting to cash in, more than half don't have enough saved elsewhere to support a "decent" retirement, according to the Center for Retirement Research. More than 90 percent don't have a pension plan at work and half of those who do, don't participate. Translation: By the time they start receiving Social Security, four out of 10 will be living at or near the poverty level.

In other words, of the three legs of their retirement stool, two legs are missing and the third is getting weaker.

Trustees of Social Security just announced the dreaded "inflection point," where they are starting to have to dip into the trust funds' reserves to pay out the benefits. That's due to a number of factors: More workers leaving and fewer new workers entering, improvements in longevity of those retiring, low interest rates, "kicking the can" by Congress, and the increasing dependency of citizens to rely on the government for their retirement.

In plain mathematical terms, payroll taxes now cover only 87.5 percent of the payments being made to beneficiaries.

The "worker-to-beneficiary" ratio, originally more than 40-to-one when the program was instituted under the Roosevelt administration, is now less than three to one and dropping. In the next 10 years, it's estimated to be closer to two to one. As in any Ponzi scheme, its success depends upon the entry of new participants to keep it going. Most Ponzi schemes fail when the participants figure out the scam. Social Security however, is not voluntary but is a government-mandated program that uses the threat of force to keep the flow of new workers coming in. But even that hasn't been able to overcome demographics — the fact that baby boomers are now retiring, and people are living longer.

Since the program was never actuarially sound, it was just a matter of time before reality caught up with it. As Warren Buffet likes to say, "it's only when the tide goes out that you discover who's been swimming naked." For Social Security, the tide, thanks to that "inflection point," is going out, and about to leave the millions of Americans who are dependent upon it "naked."

How bad could it get? Benefits are likely, under current conditions, to be cut by 20 percent in less than 15 years. But those conditions could change rapidly. Polls taken of millennials show that more than half of them don't expect to get anything out of Social Security by the time they get there, thus greatly diminishing their political support for it. Others nearing retirement age are taking benefits at age 62 rather than waiting for full benefits at age 67 for fear that by waiting they will get less, not more.

The scheme at present has three sources of income, not just payroll taxes. While payroll taxes make up most of the revenue coming into the program, there's also interest earned on the government bonds issued in place of the funds that were spent to support the government. Once those bonds have been redeemed (out of the general treasury using taxpayers' income taxes), interest payments on those bonds into the scheme's trust accounts will cease.

The third source is income taxes levied on the benefits received by the program's beneficiaries. Last year, those income taxes on Social Security benefits amounted to almost $40 billion.

For those keeping count, the average Social Security recipient gets to pay three times for his benefits: first, through his payroll taxes; second, through his income taxes being used to redeem the special bonds residing in the Social Security trust accounts; and third, through income taxes levied on his benefits.

Can Social Security be "fixed?" The answer is no, because it was never actuarially sound in the first place. In the short run, there are "fixes" to keep the scheme from failing, such as extending the retirement age and reducing the COLA calculation. Since nearly every worker now is forced to participate, there are no new sources of workers to be brought into it. But those participating may enjoy the privilege of paying more in taxes. There's the rub: In the new Congress, Republicans favor extending the retirement age and reducing the COLA, while the Democrats want the rich participants to pay more. In the new Congress, nothing is likely to happen, thanks to "gridlock" guaranteed by the midterm election results.

And so Social Security will continue its decline. Eventually those "reserves" will be liquidated (around 2033 or earlier) and benefits paid out will be limited to payroll taxes coming in. The trustees estimate that those depending upon Social Security, wholly or in part, will suffer at least a 20-percent haircut.

Of course, this wasn't supposed to happen, according to the narrative that has surrounded the fraud since its beginning. Robert Ball, a past commissioner of Social Security, didn't call it a Ponzi scheme but instead said it was "social insurance" designed to help people when earnings stop because one is too old to work or too disabled to work, or because the wage earner in the family dies, or because there is no job to be had, or when there are extraordinary expenses connected, say, with illness.

Generations of participants have believed Ball to the point where Social Security is the only leg of their three-legged stool still standing. When that leg gets shorter by 20 percent, many will finally conclude that it was a Ponzi scheme after all, and not to be relied upon in their old age. By that time, of course, it will be too late.

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