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**United States Senate**
SPECIAL COMMITTEE ON AGING
WASHINGTON, DC 20510

March 31, 1986

Dear Colleague:

For the third year in a row, an antiquated and costly provision of the Social Security Act threatens to delay payment of the annual Social Security COLA. Under current law, the COLA "trigger" provision requires that inflation reach at least 3% in the year prior to the payment of a COLA. The recent good news about inflation indicates that the rise in the CPI will be less than 3% in 1986, thus postponing the COLA scheduled for January 1, 1987. When confronted with this situation in the past, Congress has voted to temporarily suspend the COLA trigger provision -- in 1984 the Senate vote was 87 to 3. Temporary solutions were fine while Congress studied the problem, but I believe the time has come to permanently eliminate this outdated provision of the law, and I will introduce legislation to accomplish this on Tuesday, April 8.

The COLA trigger mechanism is truly an anachronism. It was created in 1973 primarily because the Social Security Administration had to go to great effort to calculate COLAs for each individual. Congress set 3% as an arbitrary level below which the cost of calculation was deemed not worth the added benefit. Increased automation in SSA's operations has essentially eliminated this savings factor.

In fact, in place of the savings originally contemplated, the COLA trigger mechanism now actually results in a net cost to the Social Security system. The cost arises for two reasons. First, the COLA trigger also cancels scheduled increases in the taxable wage base. Second, because the delayed COLA is added to the next year's COLA, persons who retire during the year of the delay receive a windfall because their first COLA will include compensation for inflation that occurred before their retirement. This windfall then becomes a permanent and expensive part of their benefit. In an August 1985 report, the Office of the Actuary of SSA estimated the average annual cost of the trigger mechanism to be .02% of taxable payroll. At 1986 levels, this would amount to $364 million per year.

America has promised Social Security recipients that their benefits will be protected from inflation. It makes no sense to limit this promise to arbitrary levels of 3%, 5%, or even 1%. Inflation at any level hurts those on

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fixed incomes. The bill I am introducing will eliminate the costly provisions of the trigger mechanism and require that COLAs be paid after any year in which there is inflation -- the COLA will match the rate of inflation, no matter what it is. I hope you will join me in passing this important legislation.

For more information regarding the enclosed bill, please contact Michael Tierney at 224-5364.

Sincerely

JOHN HEINZ
Chairman

JH/mbt

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059920.197 S.L.C.

99th CONGRESS
2d Session S. _____

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IN THE SENATE OF THE UNITED STATES

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Mr. Heinz introduced the following bill; which was read twice and referred to the Committee on _____

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A BILL

To amend title II of the Social Security Act to remove permanently the 3 percent threshold requirement for cost-of-living increases.

1 Be it enacted by the Senate and House of Representatives
2 of the United States of America in Congress assembled, That
3 this Act may be cited as the ``Cost-of-Living-Adjustment-
4 Reform Act of 1986''.
5 SEC. 2. REMOVAL OF THREE PERCENT THRESHOLD FOR COST-OF-LIVING
6 ADJUSTMENTS.
7 (a) In General.--(1) Section 215(i) of the Social
8 Security Act is further amended by striking out ``is 3
9 percent or more'' in paragraph (1)(B) and inserting in lieu
10 thereof ``is greater than zero''.
11 (2) Section 215(i)(1)(B) of such Act, as in effect in

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1 December 1978 and applied in certain cases under the
2 provisions of such Act as in effect after December 1978, is
3 amended by striking out ``exceeds by not less than 3 per
4 centum, such Index'' and inserting in lieu thereof ``exceeds
5 such Index''.
6 (3) Section 215(i)(2)(C) of such Act is amended by
7 striking out clause (i) and redesignating clauses (ii) and
8 (iii) as clauses (i) and (ii), respectively.
9 (4) Section 215(i)(2)(C) of such Act, as in effect in
10 December 1978 and applied in certain cases under the
11 provisions of such Act as in effect after December 1978, is
12 amended by striking out clause (i) and by striking out
13 ``(ii)''.
14 (5) Section 215(i)(4) of such Act is amended by inserting
15 ``and by the Cost-of-Living Adjustment Reform Act of 1986''
16 after ``Social Security Amendments of 1983''.
17 (b) Effective Date.--The amendments made by this section
18 shall apply to base quarters (as defined in section
19 215(i)(1)(A) of the Social Security Act) ending on or after
20 September 30, 1986.