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FEDERAL EMPLOYEES NEWS DIGEST

What's Inside

Expert: How to fix COLAs and survive inflation

By Nathan Abse

THE COVID PANDEMIC hit the U.S. economy hard, especially last year. But in recent months—as large numbers of adults got vaccinated, and restrictions on movement and commerce were lifted—the economy has recovered significantly. Unemployment has eased, from an official high of 14.7% in April 2020 to June 2021's 5.9%. Economic growth, too, has snapped back from pandemic lows to 6.5%. Financial markets have rebounded. But along with the strong recovery have come the sharpest price jumps in over a decade—for an inflation rate of 5.4%, according to the Bureau of Labor Statistics. Inflation—not a hot topic in recent decades—suddenly is a top concern for retirees on fixed incomes, with no easy remedy for rising prices. This week, Nathan Abse interviews Mary Johnson, a Social Security and Medicare policy analyst with the nonprofit, 1.2 million-member strong The Senior Citizens League (TSCL). Johnson is expert in economic calculations affecting seniors—led by BLS's Consumer Price Index (CPI) and SSA's cost-of-living increases (COLAs) that determine adjustments to key sources of seniors' income, such as Social Security, federal retirement and other pensions. Readers should note that federal retirement, most prominently the Federal Employees Retirement System, have COLAs tied to the problematic CPI-W.

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Q&A WITH MARY JOHNSON

Let's start with the most troubling number that your group TSCL highlights: How much Social Security buying power is lost due to Social Security payments not keeping pace with inflation?

Johnson: From 2000 to 2020, 30% of buying power eroded from Social Security payments.

That's huge! You're expert on COLAs, and Social Security COLAs. Though clearly not adequate, seniors need COLAs. So: What are COLAs, when did they begin, and why are they important?

Johnson: "Automatic" annual COLAs for Social Security have been around since 1975. They are important because Social Security is among the few sources of retirement income that are adjusted for inflation. That's very important, because with COLAs [even if they have been inadequate] there is an intention to protect the buying power of these benefits as people age. We have to better ensure that this happens, because otherwise over time the same amount or inadequately increasing amount of money, of course, tends to buy less and less. So, Congress's idea in the 1970s was to go ahead and just such adjustments automatic, to protect people who are living on fixed income from having to see their standard of living decline over time because of inflation.

Why did Congress enable yearly "automatic," Social Security COLAs, beginning in the 1970s?

Johnson: Congress moved to make COLAs automatic in the mid-1970s pushed by oil price spikes and other causes of rapid inflation. By the way, prior to 1975 there were already Social Security COLAs, but those had been legislated as needed—on an ad hoc basis.

Coming back to the present, why is inflation in the news now?

Johnson: Good question. Since 2010, inflation has been abnormally low, from an historic perspective. With such low inflation, COLAs have averaged 1.4%. During the entire past dozen years, since the financial crisis in 2008, there have been only 3 years—2011, 2017 and 2018—in which the COLAs applied to Social Security have exceeded 2%. In only one of those years—2011—was it fairly significant, at 3.6%. That

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was the highest. These past dozen years add up to a long stretch of abnormally low inflation, historically speaking.

So, in recent times, the price jump this year is a major anomaly?

Johnson: Yes. And it's a pretty big move. This year, with this inflation, we at the Senior Citizens League are forecasting a 6.1% Social Security COLA. Inflation has just been so volatile. People are watching inflation just blow up at the moment.

Should seniors be worried, then? Since for so many, income is fixed or augmented only by often- inadequate COLAs? What are your thoughts on where inflation is going?

Johnson: There is going to be some worry. But I have a really strong sense that some of this inflation is going to be temporary. Inflation is there, but it may not be as bad as it looks. At the moment, we are comparing price growth now to 12 months ago, when prices were in a very deflationary cycle. So, of course, prices look like they made a big jump. You have to consider that, going from that unusually low situation to a fast recovery. Yes, there is now more inflation than in recent years. But the steep recovery from the COVID dive accounts for some of it.

You said "some"—so, what are other significant sources of recent higher inflation?

Johnson: Well, there are other pieces of the downturn—many related also to COVID—that ultimately led us here, to this inflation. We started out in COVID with an oversupply of gasoline. That's not the case now. The price has shot up by close to 50% year-over-year! This is important, and it's been very inflationary. All the more so for COLA calculations, since gasoline is weighted under the CPI used by Social Security in calculating its COLAs—it's a big driver of the increase.

Of several Bureau of Labor Statistics CPIs, which one does Social Security use in its COLAs?

Johnson: For its COLA calculation, Social Security uses what's called the "Consumer Price Index—W," or "CPI-W"—meaning, "for urban wage earners and clerical workers."

Your nonprofit, TSCL, thinks that for seniors Social Security—and for that matter, other pensions, like federal retirement—should use a different CPI calculation. Why?

Johnson: When calculating COLAs for seniors you should use a different CPI, yes. Because the currently used CPI better reflects an "average" person, a younger person's, use of money. We seniors actually spend our money differently. We spend proportionally more on housing and, more still, on health care. Both of these sectors' prices have been rising at a dramatic rate—even accelerating—in recent times. We need a different CPI for our COLAs. Using a more accurate CPI in calculating our COLAs is a necessity to prevent erosion of our spending power.

What other CPIs are there, and—again—why doesn't Social Security just use a better CPI?

Johnson: There are a handful of CPIs. There is the "research CPI" more commonly called the "CPI-E". There is also the "chained CPI," which you may have heard of in the news. It has some real drawbacks as a measure of inflation for seniors, but nonetheless was discussed for Social Security use. But the fact is, since 1975 Social Security has used the "CPI-W." Without going into too much detail, I have to say, none of the CPIs are perfect—but, bottom line, we find CPI-E would be best for retirees.

Why are COLAs—drawing on only slightly different CPI equations—so important for retirees?

Johnson: There are two main things to understand about the importance of COLAs and calculating them with a good, reflective CPI. First, for most seniors, retirement doesn't last just a year or a few years, but 20 or 30 years or more. If you get that, you soon understand that adjusting retirement income for inflation accurately is important. Otherwise, over a long haul there will be a lot of lost buying power. Second, CPI used to calculate COLAs are very important, even if the differences among each CPI might be very small. Sure, from one year to the next, the difference between two ways of calculating CPI might be a mere tenth of a percentage point. But those numbers—and the tiny differences in them in this or that year—are like the interest rates on a long-term bond or a CD: over time, they add up! The interest compounds. So, similarly, if calculated correctly, COLAs will maintain a senior's buying power.

You and TSCL want Social Security to go from CPI-W to CPI-E, in calculating COLAs for seniors, right?

Johnson: That's correct, we want CPI-E. Because over the long haul we can see using CPI-E would be better than the current CPI-W for helping seniors maintain buying power. Now, I have to say if you research this it's not true for each and every year. Some years will be exceptions. There are years when seniors would benefit more from one or the other of the CPIs that we don't endorse—for instance, this year, the CPI-W that Social Security has long used will result in a higher COLA. CPI-W results in a higher COLA calculation this year largely because of the dramatic rise in fuel prices. So, CPI-E is not always best. But over time, we find it to be. (If your readers want specifics, CPI-W at the moment, I believe, stands at 6.1% and CPI-E is at 4.7%. These are estimates and will change with new data over the next couple months).

Does TSCL have its own stats on how tough pandemic economic issues have been on seniors?

Johnson: Yes. We have done our own online poll on this, with 506 people responding. People were asked, "Which of the following financial actions have you taken during the pandemic?"—and to pick all answers that apply from our list. So, 33% say they spent all emergency sav-

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NEWS BRIEFS

FEDS MOTIVATED, BUT FEELING UNSUPPORTED

A RECENT POLL finds a disconnect between a federal workforce that self-identifies as being strongly motivated toward public service, but judges management to lag on that crucial aim.

Eagle Hill Consulting, a management research and consulting firm, sponsored the survey.

In the poll of 509 feds, when asked to prioritize a list of on-the-job goals and concerns, fully 59% reported that they value "purposeful work" as their top choice. Yet, the survey also reveals employees don't think management values that aim to a similar degree, and furthermore don't feel adequately supported by management.

How so? Of the pool of employee respondents, fully 51% reported that their workplace experiences impact their ability to serve the public—but just 33% say that their agency "places importance on employee experience/satisfaction."

This disconnect, and others explored in the survey, are severe enough that the situation leaves nearly a third of feds surveyed—29%—to say they would leave government service if they were offered a "comparable position" elsewhere.

The gist of the message is that, for feds to better serve the public (or "customers" as the survey authors put it), employees need greater support and focus from management aiming to improve workday experiences.

"The takeaway for agencies is that the relative lack of emphasis on improving the employee experience leads to downstream effects on the citizen," Eagle Hill's survey report states.

The report notes the disconnect is especially concerning, coming as it does at a time when a range of other survey research shows "citizen satisfaction with federal government services" at its lowest since 2015.

"When citizen engagement is designed and implemented well, it provides government an opportunity to foster 'process-based' trust in public deliberation and service delivery," the study counsels, quoting World Bank research. "While trust may be one determinant for citizens to participate in this process, citizens' experiences and satisfaction in the process could also shape trust in government."

The survey and accompanying report cover a far wider range of federal workplace issues, from work-life balance to teamwork perceptions and many others.

Drawing conclusions from its survey research, Eagle Hill proposes a chain of events needed to turn problems in the federal workplace around—not just for the sake of employee experiences, or the public's satisfaction with government services, but more fundamentally to restore citizen trust in government itself. To spell it out: If management improves employee experience, feds soon would be "improving federal customer experiences and meeting customer expectations," and these improvements in turn "can play an important role in shaping trust in government."

"[The] employee experience ... has considerable ripple effects on the customer experience, and government should pay attention," the report summarizes.

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FLEMMING AWARDS FOR OUTSTANDING FEDS

THIS WEEK, A handful of outstanding feds received one of government service's highest honors—the Arthur S. Flemming Awards, a tradition that has lasted nearly three-quarters of a century.

This year, recipients include feds who are helping make farming stand up to climate change, launching solutions to the opioid epidemic, and developing more powerful "quantum" computing solutions to huge data sets needed to crack some of humanity's greatest puzzles.

The Arthur S. Flemming Commission and the George Washington University Trachtenberg School of Public Policy and Public Administration work in partnership with the National Academy of Public Administration to manage the annual awards.

The awards have been conferred to a dozen of the U.S. civil service's finest—with each recipient having contributed in fields including applied science and engineering, basic science, leadership and management, legal achievement and social science. Previous awardees include NASA astronaut and first man on the Moon Neil Armstrong and National Cancer Institute AIDS drug developer Samuel Broder.

The namesake of the awards served under seven administrations for presidents from both major political parties across multiple decades. Flemming was a remarkable civil servant, who twice received the Presidential Medal of Freedom—once from President Eisenhower and again, decades later, from President Clinton.

This year's recipients come from a wide range of agencies:

Steven Mirsky, for example, of the Agricultural Research Service at the U.S. Department of Agriculture is being recognized for developing "the merger of precision and sustainable agriculture to make farming more productive, adaptive and resilient in the face of climate change, declining soil and water quality, and pest resistance," as described in the awards announcement.

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Stephanie Schollaert Uz, a civil servant and scientist at the Goddard Space Flight Center for NASA, manages part of the Earth Sciences Division and is using technology and data models to monitor pathogens, pollutants and water quality in groundbreaking ways.

These and ten more dedicated feds and their admirable work were recognized. You can read about them on the awards website. Recipients were announced earlier this year, but the virtual emceed event—including acceptance speeches and celebratory segments—was aired online recently, and is available for viewing on the Government Matters website.

FED PAID FAMILY LEAVE ADVANCES

A BILL THAT would provide federal employees with up to 12 weeks of paid family leave each year advanced in committee this week.

On July 20, the House Oversight and Reform Committee voted—on strictly partisan lines 24-to-16—to send the legislation to the House floor for a vote. The contentiousness was expected, and reflected months of previous wrangling over the bill.

Currently, such long stints of paid family leave for feds are limited—specifically, under the Federal Employee Paid Leave Act (FEPLA) of 2019, feds are covered only for the birth, adoption and caring for a new child.

The new legislation, dubbed the Comprehensive Paid Leave for Federal Employees Act (CPLFEA), has been sponsored by Rep. Carolyn Maloney (D-N.Y.) It would not only lock in greatly expanded paid leave for civil service feds, it would also add hundreds of thousands of Postal Service employees under the umbrella of the law. CPLFEA would add a range of non-child care situations qualifying for paid family leave.

Feds currently have FEPLA (and of course sick leave and annual leave) as benefits. The proposed legislation, pursuing aims outlined in President Biden's American Families Plan, would expand eligible paid family leave circumstances to include long-term personal illness, caring for sick family members or to manage when a family member is put on active duty in the military services.

The hearing was marked by sharp disagreement and division along party lines—with Republican members questioning, most fundamentally, the need for any additional leave time for federal employees.

Beyond the question of need, some minority members took issue with introduction of previously unreleased, and preliminary, Congressional Budget Office cost estimates associated with the benefit. The objections ranged from judging the cost estimates to be unrealistically low to claims that, prior to the public hearing, the majority alone were privy to the CBO documents.

The minority's objections, and the majority's responses, are discussed in greater detail in reports from Federal News Network and GovExec. ■

Thrift Savings Plan Share Prices

Funds	July 29	Month Ago	Year Ago
G Fund	$16.6348	$16.6147	$16.4563
F Fund	$21.0871	$20.8625	$21.1792
C Fund	$66.3156	$64.3450	$48.1522
S Fund	$85.1952	$85.9343	$56.4478
I Fund	$39.1933	$38.9202	$30.6200
Lifecycle Funds			
L Income	$23.1508	$23.0221	$21.4081
L 2025	$11.9857	$11.8768	$10.2613
L 2030	$42.3881	$41.9148	$35.0078
L 2035	$12.7471	$12.5904	$10.3441
L 2040	$48.2873	$47.6538	$38.5070
L 2045	$13.2412	$13.0587	$10.4010
L 2050	$29.0339	$28.6151	$22.4659
L 2055	$14.2980	$14.0664	$10.5054
L 2060	$14.2980	$14.0664	$10.5055
L 2065	$14.2980	$14.0663	$10.5057

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ings, 19% said they drew down retirement savings, 11% reported they had to go back to work or take a new job—and that number jumped up just over a couple months, 8% said they applied for pharmacy assistance in getting at least one of their prescription drugs, 9% say they had to apply for help from Medicare. And here's a powerful number: 19% report they either visited a food pantry or applied for federal SNAP assistance for getting food. This is way, way too high. And 12% said they had taken in family providing room and board or other assistance for adult children or grandchildren. Fully 40% said they did not have any of their own retirement savings!

What do you and the TSCL think would help seniors, at least with inflation?

Johnson: We have a three-pronged solution that we advocate. First, we think there should be a "boost," a benefit boost for all retirees. We think that this boost is needed to make up for a lot of income unfairly lost by retirees over the years, as I've discussed. The CPI-W index used to calculate COLAs—for Social Security [Editor's note: and federal retirement plans] is just not representative of the spending patterns of retirees. In essence, retirees on Social Security have lost a lot of income, which has compounded over time, because of the use of this unrepresentative CPI and COLA.

What are the other two prongs?

Johnson: The second prong is for Social Security COLAs, going forward, to be tied to a more representative consumer price index. As I said, for seniors that means we should move from using CPI-W to CPI-E. The third part is we need to pass legislation that puts in place greater protection for seniors against deflationary losses, deflationary reductions in Social Security. Three years the COLA was calculated at zero, and three other years it was at like 0.3%, or almost zero. We think, particularly given how much buying power has already been lost, that we'd like to see a guaranteed minimum 3.0% annual COLA. And bills that would accomplish much of this have been introduced like the Social Security 2100 Act bill, introduced by Rep. John Larson (D-Conn.) last year. More recently there's been the Fair COLAs for Seniors Act 2021, pushed by Rep. John Garamendi (D-Calif.).

How much money are you asking for in your "boost" proposal?

Johnson: We are asking for a very modest boost. It's in the Larson bill, based in part on surveys of what people need. It comes to a 2 percent increase in benefits. Right now, the average Social Security benefit is around $1550 per month. So, we're talking a boost of $20 to $30 per month, on average—very modest. As I said, there's been a clear 30% loss of Social Security payment buying power. By the way we need to recalculate this figure, on our website, revising upward, because of the pandemic and inflation. Even when it's revised, though, the requested boost will be modest—in part because the same legislation also mandates use of the more reflective CPI-E for calculating annual COLAs, for seniors—so payments would improve over time.

How attainable are your goals: SSA COLAs tied to CPI-E, the "boost" and deflation protection?

Johnson: The reality is Congress needs to do these things. And Congress needs to ensure adequate funds to cover the increases. Changes in the law would do so by raising the ceiling on income that comes under Social Security taxes. They also would slowly and modestly increase Social Security tax rates. To pass these will take finesse. There are many who—despite the need for a functional Social Security system—don't want to raise payroll taxes, even modestly, to cover it. But this is something we can and must do, and can manage with incremental change. Readers should read the petition on TSCL website, and sign up! ■

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Anne Armstrong, Chief Content and Alliances Officer
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A division of 1105 Media, Inc.
Rajeev Kapur, CEO
www.1105media.com

STAFF

Nathan Abse, Online Managing Editor
Ellen McGuyer, Director, Audience Development
Alan Tao, Senior Graphic Designer
Narine Stepanyan, Online Production Coordinator

CONTRIBUTORS:
Mike Causey, Mathew B. Tully