Defense Report
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A Change in the Way Federal Pensions are Adjusted – Still Another Broken Promise

Three years ago Congress decided that the pensions received by retired military personnel and federal civilian employees would be protected against inflation by twice-yearly adjustment (in March and September) based on changes in the consumer price index (CPI). As a result, these members of our retired community have fared better than many others as far as keeping pace with inflation was concerned. In the past year federal pensions were adjusted upward by a total of slightly more than 10 percent, still lagging behind the actual rate of inflation (estimated variously between 13 and 18 percent) but far better than no adjustment at all.

Now, in its desire to save money, the Administration has decided that the adjustments should be limited to a single change each year, based on the accumulated CPI changes for that year. The argument in favor of this shift is that a second change made on top of the first is compounded on the basis of the already adjusted amount, thus producing a total adjustment greater than the change to the CPI. To correct this, the Administration is asking for a change in the law that would make a mid-year adjustment in July, 1980, then delay subsequent adjustments for a full year. On its face this proposal seems equitable. After all, a raise equal to the total increase in the CPI should do the job, whether it comes in one increment or two. Unfortunately, that is not the case.

First of all, the shift to once-a-year adjustments would cost the average federal retiree a dollar per day or $365 per year by delaying the adjustment. For many retired couples that $365 amounts to more than a month of food bills. For others it would take care of the personal property taxes on the family car or make a substantial dent in the taxes on the retirement home. To those whose sole income is their federal pension check $365 is a lot of money.

Second, and certainly most alarming, is the prospect, already voiced in Congress, that the annual adjustment could be held down to what the Administration budgeteers and the congressional budget and appropriations committees wanted to pay, not tied irretrievably to changes in the CPI. If, for example, the CPI rose 15 percent in a given year but the Administration did not want to pay that much, the recommendation to Congress would be for a lesser amount. This is essentially the same thing that has been happening to federal pay since 1972 as successive administrations have "capped" cost-of-living adjustments to the salaries of active military personnel and civil service workers. The impact of this breach of faith with the working force has been to drive military reenlistment rates downward, and to make the job of recruiters, both military and civilian, more difficult.

Before the Congress blindly accepts the Administration's proposal for once-a-year adjustments it should take a long look at the consequences. Even with built-in assurances that an annual adjustment will account for the full change in the CPI the departure would be perceived as another breach of faith with the federal work force.

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