

ANNUAL COST OF LIVING ADJUSTMENTS

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Prior to 2001 county elected official's salaries were set by Montana Statute. For first through fifth class counties the salary was \$25,000 plus \$10 for each 100 hundred residents. For sixth and seventh class counties the salary was \$18,000 plus \$10 for each 100 hundred residents. For both there was then added a Cost of Living Increment for each year after 1990. This COLA increment was cumulative so to arrive at the salary, you had to take the base plus the population increment, plus the cumulative COLA dollar increments.

Recognizing that often this mechanism was not providing a salary sufficient to attract and retain good candidates and that many elected officials were leaving office because they could receive a significantly higher salary in the private sector or with a school or city, the Council of County Officials worked with the Local Government Center at MSU on finding a different means for determining elected officials salaries. From this collaborative effort, the County Compensation Board was created by legislation in 2001. In that legislation the language that referred to the COLA adjustment was repealed. Below is the text of the repealed language:

".....up to 100% of the previous calendar year's consumer price index for all urban consumers, U.S. department of labor, bureau of labor statistics, or other index that the bureau of business and economic research of the university of Montana-Missoula may in the future recognize as the successor to that index."

However since that time, we have continued to work with the Bureau of Economic research at the University of Montana to provide you with what that COLA amount for each year would have been using the index that had traditionally been used so that counties had some measurement of the COLA. That COLA calculation is based upon the Consumer Price Index for All Urban Consumers, as determined by the US Department of Labor. The CPI is used as the basis for a multitude of annual adjustments which will be discussed later.

Many of you have heard me repeatedly state that using the CPI – COLA does not keep pace with the true cost of living in Montana and that if you simply take an employees salary and add the COLA year after year, that salary will eventually become out of sync with the real world and that a catch-up adjustment is needed.

Because of the rapidly rising energy costs this past year, when the COLA at 2.8% was published, we received numerous calls and e-mails asking how that could be possible. The primary reason is that is a measurement of the cost of a "basket" of goods in the PAST so always lags behind today's cost. This is exacerbated when inflationary factors are rising more rapidly than in other times.

I have been on a search for alternate indexes that could be considered in setting elected officials and other employee's salaries. Recall that the statutory requirement to use the Consumer Price Index was repealed in 2001, you are free to use any means or method you wish to determine "a" [emphasis added] COLA, not "the" COLA. The COLA section of statute was amended to remove all reference to any index and just simply states that the COLA is based upon a schedule developed by the County Compensation Board:

7-4-2504. Salaries to be fixed by resolution -- cost-of-living increments. *The county governing body shall by resolution on or before August 1 of each year adjust and uniformly fix the salaries of the county treasurer, county clerk, county assessor, county school superintendent, county sheriff, clerk of district court,*

county auditor (if there is one), justice of the peace, and county surveyor (if the surveyor receives a salary) by adding to the annual salary provided for in 7-4-2503(1) a cost-of-living increment based upon the schedule developed and approved by the county compensation board provided for in 7-4-2503(4).

The point of the discussion is that you are not required to use any particular index to determine a COLA that will be used for elected officials salaries, just that a COLA will be used, based upon the schedule developed and approved by the County Compensation Board. You have the latitude to use any means or any information available to determine the COLA for your county that you may wish.

I have conducted a fairly extensive amount of research into alternative indexes that could be considered and am providing information about several alternatives, including some historic numbers of the annual percent adjustment. Note that in all cases, I am using the most-recent index information that is available. While it may be labeled 2006 or 2007, it is nonetheless the most recent data available.

I would like to briefly discuss one in particular because it is based upon MONTANA information. That is the Montana Average Weekly Wage that is calculated pursuant to statute as the basis for indemnification for both temporary and permanent benefits for Workers Compensation. Does it measure the annual cost of living – NO. What it measures is average wages paid in Montana. I pose the question: Are you adjusting your salaries to account for higher living costs or are you adjusting salaries to keep pace with other salaries in Montana?”

If you are trying to be competitive in the labor market place in order to attract and retain elected officials and employees, it would appear to be reasonable to use a wage-based index, rather than a cost-of-living index. Here is a table comparing the Montana Average Wage and the Consumer Price Index for the past ten years. You will note that the cumulative increase in the Montana Average Weekly Wage is 39.4% while the cumulative increase in the Consumer Price Index is 26.0%, an overall difference of 13.5%.

Are you trying to maintain purchasing power for your employees or be competitive in the labor market-place?

COMPARISON OF INCREASES			
Montana Average Weekly Wage Consumer Price Index			
For use in State Fiscal Year	Annual Increase Montana Average Weekly Wage	Annual Increase Consumer Price Index	Annual Percentage Difference
2000	3.5%	1.6%	1.9%
2001	3.2%	2.2%	1.0%
2002	3.5%	3.4%	0.2%
2003	4.1%	2.8%	1.2%
2004	3.1%	1.6%	1.5%
2005	3.5%	2.3%	1.2%
2006	3.4%	2.7%	0.7%
2007	4.7%	3.4%	1.3%
2008	5.1%	3.2%	1.9%
2009	5.4%	2.8%	2.6%
Total	39.4%	26.0%	13.5%

On the next several pages is information about four different indexes that are in common use, the Consumer Price Index, Social Security COLA Adjustment, US Average Weekly Wage and the Montana Average Weekly Wage. All information was obtained from the US Department of Labor <http://stats.bls.gov/> the Social Security Administration <http://www.ssa.gov/OACT/COLA/colaseries.html> and the Montana Department of Labor <http://www.ourfactsyourfuture.org/>

CONSUMER PRICE INDEX

The Consumer Price Index (CPI) is a measure of the average change in the prices paid by **urban** consumers for a fixed market basket of goods and services. The CPI is a market basket of things purchased by consumers in non-rural areas. Every decade or so the U.S. Department of Labor surveys consumers to find out how they spend their money. They find out what they buy and what share of their incomes they spend on each item. This becomes the base period. The monthly CPI is calculated by finding out the cost of the market basket and the index is created by comparing the current cost to the base period cost. The CPI is calculated monthly for two population groups, one consisting only of urban households whose primary source of income is derived from the employment of wage earners and clerical workers (CPI-W). This index represents the buying habits of 32% of the non-institutional population. As new uses were developed for the CPI in recent years, the need for a broader and more representative index became apparent. The all-urban consumer index (CPI-U), introduced in 1978, is representative of the 1982-84 buying habits of about 80% of the non-institutional population, and includes wage earners and clerical workers, salaried workers, the self-employed, retirees, and the unemployed.

The CPI is not a cost of living inflation index because it measures changes in the price of things that people bought in the past. Because consumers change what they buy over time, increases or decreases in the CPI do not measure changes in the cost of living. A cost of living index would measure changes in the prices of what people actually buy.

Uses

As an economic indicator. As the most widely used measure of inflation, the CPI is an indicator of the effectiveness of government policy. In addition, business executives, labor leaders and other private citizens use the index as a guide in making economic decisions.

As a deflator of other economic series. The CPI and its components are used to adjust other economic series for price change and to translate these series into inflation-free dollars.

As a means for adjusting income payments. Over 2 million workers are covered by collective bargaining agreements which tie wages to the CPI. The index affects the income of almost 80 million people as a result of statutory action: 47.8 million Social Security beneficiaries, about 4.1 million military and Federal Civil Service retirees and survivors, and about 22.4 million food stamp recipients. Changes in the CPI also affect the cost of lunches for the 26.7 million children who eat lunch at school. Some private firms and individuals use the CPI to keep rents, royalties, alimony payments and child support payments in line with changing prices. Since 1985, the CPI has been used to adjust the Federal income tax structure to prevent inflation-induced increases in taxes.

The table on the following page summarizes the change in the Consumer Price Index for both the **Annual Rate and the April to April Rate** which is the most-recent data available. Note the increase in the April to April data over the Annual increase.

CONSUMER PRICE INDEX				
ALL URBAN CONSUMERS				
Year	Apr Index	Apr - Apr Percent Increase	Annual Index	Annual Percent Increase
1976	56.1		56.9	
1977	60.0	7.0%	60.6	6.5%
1978	63.9	6.5%	65.2	7.6%
1979	70.6	10.5%	72.6	11.3%
1980	81.0	14.7%	82.4	13.5%
1981	89.1	10.0%	90.9	10.3%
1982	94.9	6.5%	96.5	6.2%
1983	98.6	3.9%	99.6	3.2%
1984	103.1	4.6%	103.9	4.3%
1985	106.9	3.7%	107.6	3.6%
1986	108.6	1.6%	109.6	1.9%
1987	112.7	3.8%	113.6	3.6%
1988	117.1	3.9%	118.3	4.1%
1989	123.1	5.1%	124	4.8%
1990	128.9	4.7%	130.7	5.4%
1991	135.2	4.9%	136.2	4.2%
1992	139.5	3.2%	140.3	3.0%
1993	144.0	3.2%	144.5	3.0%
1994	147.4	2.4%	148.2	2.6%
1995	151.9	3.1%	152.4	2.8%

CONSUMER PRICE INDEX				
ALL URBAN CONSUMERS				
Year	Apr Index	Apr - Apr Percent Increase	Annual Index	Annual Percent Increase
1996	156.3	2.9%	156.9	3.0%
1997	160.2	2.5%	160.5	2.3%
1998	162.5	1.4%	163.0	1.6%
1999	166.2	2.3%	166.6	2.2%
2000	171.3	3.1%	172.2	3.4%
2001	176.9	3.3%	177.1	2.8%
2002	179.8	1.6%	179.9	1.6%
2003	183.8	2.2%	184.0	2.3%
2004	188.0	2.3%	188.9	2.7%
2005	194.6	3.5%	195.3	3.4%
2006	201.5	3.5%	201.6	3.2%
2007	206.7	2.6%	207.3	2.8%
2008	214.9	3.9%	N/Avail	
2009				
2010				

Social Security Annual COLA adjustment for Retiree Benefits

What is a COLA?

Legislation enacted in 1973 provides for automatic cost-of-living adjustments, or COLAs. With COLAs, Social Security and Supplemental Security Income (SSI) benefits keep pace with inflation.

Latest COLA

The latest COLA is 2.3 percent for Social Security benefits and SSI payments. Social Security benefits will increase by 2.3 percent beginning with the December 2007 benefits, which are payable in January 2008. Federal SSI payment levels will also increase by 2.3 percent effective for payments made for January 2008. Because the normal SSI payment date is the first of the month and January 1 is a holiday, the SSI payments for January are always made at the end of the previous December.

How is a COLA calculated?

The Social Security Act specifies a formula for determining each COLA. In general, a COLA is equal to the percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of one year to the third quarter of the next.

Computation of 2.3-percent COLA

For the December 2007 COLA, we measure the increase in the average CPI-W from the **third calendar quarter of 2006 to the third quarter of 2007**. These averages are 199.067 and 203.596 for the third calendar quarters of 2006 and 2007, respectively, and are derived from monthly CPI-Ws developed by the [Bureau of Labor Statistics](#).

SOCIAL SECURITY SSI ANNUAL COLA		SOCIAL SECURITY SSI ANNUAL COLA		SOCIAL SECURITY SSI ANNUAL COLA	
*Previous Calendar Year Data		*Previous Calendar Year Data		*Previous Calendar Year Data	
Year	COLA	Year	COLA	Year	COLA
1976	6.4%	1991	3.7%	2006	3.3%
1977	5.9%	1992	3.0%	2007	2.3%
1978	6.5%	1993	2.6%	2008	
1979	9.9%	1994	2.8%	2009	
1980	14.3%	1995	2.6%	2010	
1981	11.2%	1996	2.9%		
1982	7.4%	1997	2.1%		
1983	3.5%	1998	1.3%		
1984	3.5%	1999	2.5%		
1985	3.1%	2000	3.5%		
1986	1.3%	2001	2.6%		
1987	4.2%	2002	1.4%		
1988	4.0%	2003	2.1%		
1989	4.7%	2004	2.7%		
1990	5.4%	2005	4.1%		

** Example:
2007 Data is used
for SSI Payments
Beginning 1/1/08

NATIONAL AVERAGE WEEKLY WAGE

For each year after 1977, the Social Security Administration has produced reports that show the number of workers and the aggregate amount of their wages. Normally, a report is produced four times a year.

The Social Security Act requires that the average wage be promulgated in the Federal Register by November 1 of the year following the year in which the wages were earned.

Determination of the National Average Wage Index for 2006

To determine the national average wage index for calendar year 2006, the Social Security Administration increased the 2005 national average wage index of 36,952.94 by the percentage increase in average wages from 2005 to 2006, as measured by annual wage data tabulated by the Social Security Administration (SSA). The wage data tabulated by SSA are based on wages subject to Federal income taxes and contributions to deferred compensation plans.

The average amounts of wages calculated directly from the SSA data were \$35,448.93 and \$37,078.27 for 2005 and 2006, respectively. To determine the national average wage index for 2006 at a level that is consistent with the national average wage indexing series for prior years, SSA multiplies the 2005 national average wage index of 36,952.94 by the percentage increase in average wages from 2005 to 2006 (based on SSA-tabulated wage data). In other words, the national average wage index for 2006 is 36,952.94 times \$37,078.27 divided by \$35,448.93, which equals 38,651.41.

The term "wages" to refer to net compensation. Raw average wage data are presented in the table below. Note that an average wage is an average *per worker*, not an average per job. An increase in the latest such average wage over the previous one is multiplied by the last AWI to produce the next AWI.

National Average Wage Indexing series, 1951-2006			National Average Wage Indexing series, 1951-2006			National Average Wage Indexing series, 1951-2006		
Year	Index	Percent Increase	Year	Index	Percent Increase	Year	Index	Percent Increase
1951	2,799.16		1971	6,497.08	5.0%	1991	21,811.60	3.7%
1952	2,973.32	6.2%	1972	7,133.80	9.8%	1992	22,935.42	5.2%
1953	3,139.44	5.6%	1973	7,580.16	6.3%	1993	23,132.67	0.9%
1954	3,155.64	0.5%	1974	8,030.76	5.9%	1994	23,753.53	2.7%
1955	3,301.44	4.6%	1975	8,630.92	7.5%	1995	24,705.66	4.0%
1956	3,532.36	7.0%	1976	9,226.48	6.9%	1996	25,913.90	4.9%
1957	3,641.72	3.1%	1977	9,779.44	6.0%	1997	27,426.00	5.8%
1958	3,673.80	0.9%	1978	10,556.03	7.9%	1998	28,861.44	5.2%
1959	3,855.80	5.0%	1979	11,479.46	8.7%	1999	30,469.84	5.6%
1960	4,007.12	3.9%	1980	12,513.46	9.0%	2000	32,154.82	5.5%
1961	4,086.76	2.0%	1981	13,773.10	10.1%	2001	32,921.92	2.4%
1962	4,291.40	5.0%	1982	14,531.34	5.5%	2002	33,252.09	1.0%
1963	4,396.64	2.5%	1983	15,239.24	4.9%	2003	34,064.95	2.4%
1964	4,576.32	4.1%	1984	16,135.07	5.9%	2004	35,648.55	4.6%
1965	4,658.72	1.8%	1985	16,822.51	4.3%	2005	36,952.94	3.7%
1966	4,938.36	6.0%	1986	17,321.82	3.0%	2006	38,651.41	4.6%
1967	5,213.44	5.6%	1987	18,426.51	6.4%	2007	N/Avail	
1968	5,571.76	6.9%	1988	19,334.04	4.9%	2008		
1969	5,893.76	5.8%	1989	20,099.55	4.0%	2008		
1970	6,186.24	5.0%	1990	21,027.98	4.6%	2010		

MONTANA AVERAGE WEEKLY WAGE

The average weekly wage is produced by state statute (§39-71-116(32) MCA) to determine the maximum and minimum benefit amounts for unemployment insurance benefits. It is also used to determine the maximum benefit amount for workers' compensation benefits.

The average annual wage is calculated by dividing total wages paid by all covered employers as reported on Unemployment Insurance (UI) Contribution reports by the average monthly number of individuals employed as reported on such contribution reports. The average annual wage divided by 52, rounded to the nearest cent, is the average weekly wage. This data excludes Federal Government.

Data for 1974 forward includes private nonprofit employment (reimbursable); 1977 forward also includes state and local government employment.

Computed and published by the Research & Analysis Bureau, Montana Department of Labor & Industry, P.O. Box 1728, Helena, MT 59624, (406) 444-2430.

MONTANA AVERAGE WEEKLY WAGE			
*Calculated by MDOLI			
State Fiscal Year	Total Average Weekly Wage	Prior Year Current Year Increase	Percent Increase
1976	\$146.84		
1977	\$163.67	1.1146	11.5%
1978	\$173.82	1.0620	6.2%
1979	\$187.68	1.0797	8.0%
1980	\$198.32	1.0567	5.7%
1981	\$219.12	1.1049	10.5%
1982	\$241.32	1.1013	10.1%
1983	\$262.62	1.0883	8.8%
1984	\$277.22	1.0556	5.6%
1985	\$286.32	1.0328	3.3%
1986	\$292.55	1.0218	2.2%
1987	\$298.58	1.0206	2.1%
1988	\$301.69	1.0104	1.0%
1989	\$308.37	1.0221	2.2%
1990	\$317.52	1.0297	3.0%
1991	\$323.20	1.0179	1.8%
1992	\$335.52	1.0381	3.8%
1993	\$349.07	1.0404	4.0%
1994	\$362.28	1.0378	3.8%
1995	\$372.64	1.0286	2.9%

MONTANA AVERAGE WEEKLY WAGE			
*Calculated by MDOLI			
State Fiscal Year	Total Average Weekly Wage	Prior Year Current Year Increase	Percent Increase
1996	\$380.32	1.0206	2.1%
1997	\$384.14	1.0100	1.0%
1998	\$395.66	1.0300	3.0%
1999	\$410.63	1.0378	3.8%
2000	\$424.88	1.0347	3.5%
2001	\$438.62	1.0323	3.2%
2002	\$454.06	1.0352	3.5%
2003	\$472.50	1.0406	4.1%
2004	\$486.99	1.0307	3.1%
2005	\$503.88	1.0347	3.5%
2006	\$520.88	1.0337	3.4%
2007	\$545.46	1.0472	4.7%
2008	\$573.31	1.0511	5.1%
2009	\$604.35	1.0541	5.4%
2010			

* Footnote: On June 13, 2008 the US labor Department reported that the Consumer Price Index rose by 0.6% in May 2008.