Cost-of-Living Adjustments

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Cost-of-Living Adjustments

- Since 1975, Social Security's general benefit increases have been based on increases in the cost of living, as measured by the Consumer Price Index (CPI)
- Effective for December benefits, payable in January
- Benefits keep pace with inflation

Consumer Price Index (CPI)

- Bureau of Labor Statistics produces monthly data
- COLAs are based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)
- COLA = percentage increase (if any) in the average CPI-W from Q3 of last year to Q3 of current year

COLA series, 1975-2017

Year	COLA	Year	COLA	Year	COLA	Year	COLA
1975	8.0	1986	1.3	1997	2.1	2008	5.8
1976	6.4	1987	4.2	1998	1.3	2009	0.0
1977	5.9	1988	4.0	1999	2.5	2010	0.0
1978	6.5	1989	4.7	2000	3.5	2011	3.6
1979	9.9	1990	5.4	2001	2.6	2012	1.7
1980	14.3	1991	3.7	2002	1.4	2013	1.5
1981	11.2	1992	3.0	2003	2.1	2014	1.7
1982	7.4	1993	2.6	2004	2.7	2015	0.0
1983	3.5	1994	2.8	2005	4.1	2016	0.3
1984	3.5	1995	2.6	2006	3.3	**2017**	**2.0**
1985	3.1	1996	2.9	2007	2.3		

Simple, right?

- Bureau of Labor Statistics produces monthly data on changes in prices paid for a **representative basket of goods and services**
- CPI-W (and CPI-U) based on experience of the relevant average household (spending habits survey of 7,000 families)
- Other indices, other approaches

Chained CPI (C-CPI-U)

- Based on idea that in an inflationary environment, consumers will choose less-expensive substitutes
- Lower-level vs. higher-level substitution bias
- By age 85, benefits would be about **6.5% lower**
- OCACT estimates C-CPI-U would *reduce* the annual COLA by **0.3** percentage point, on average

CPI for the Elderly (CPI-E)

- Basket of goods and services for those age 62+
- Certain expenditure groups, such as medical care and housing, are given greater weight
- By age 85, benefits would be about **4.6% higher**
- OCACT estimates CPI-E would *increase* the annual COLA by **0.2** percentage point, on average

Other variations

- Proposals to reduce or increase annual COLA (as currently calculated) by a set amount
- Chained CPI-W, chained CPI-E
- Hold disabled (DI), lower earners harmless
- No COLA for high earners

So what?

- Switching from CPI-W to chained CPI-W starting December 2019 = **20%** of shortfall **eliminated**

- Switching from CPI-W to CPI-E starting December 2020 = **14% increase** in shortfall

- Reducing the annual COLA by 1 percentage point starting December 2019 = **64%** of shortfall **eliminated**

Resources

- About 140 provisions scored annually: https://www.ssa.gov/oact/solvency/provisions/index.html
- Cost-of-living adjustment provisions: https://www.ssa.gov/oact/solvency/provisions/cola.html
- Bureau of Labor Statistics – Consumer Price Index: https://www.bls.gov/cpi/home.htm