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Social Security: Cost-of-Living Adjustments

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Summary

To compensate for the effects of inflation, Social Security recipients have received a cost-of-living adjustment (COLA) each year since a trigger mechanism was implemented in 1975. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), updated monthly by the Department of Labor's Bureau of Labor Statistics (BLS), is the measure used to compute the change. The Social Security COLA is based on the percentage change in the index from the highest third calendar quarter average CPI-W recorded (most often, from the previous year) to the average CPI-W for the third calendar quarter of the current year. The COLA becomes effective in December of the current year and is payable in January of the following year. (Social Security payments always reflect the benefits due for the preceding month.) If there is no percentage increase in the CPI-W between the measuring periods, no COLA is payable.

No COLA will be payable in January 2010 because the average CPI-W for the third quarter of 2009 did not increase from the average CPI-W for the third quarter of 2008.

Because no COLA will be paid to Social Security beneficiaries in 2010, identical percentage increases in Supplemental Security Income (SSI), veterans' pensions, and railroad retirement benefits, and additional changes in the Social Security program, will not be triggered. Although COLAs under the federal Civil Service Retirement System (CSRS) and the federal military retirement program are not triggered by the Social Security COLA, these programs use the same measuring period and formula for computing their COLAs. As a result, their recipients similarly will not likely receive a COLA in January 2010.

Current law retains the average CPI-W for the third quarter of 2008, as the reigning highest third quarter average, as the baseline for comparison for a COLA in 2011. The Congressional Budget Office (CBO) and the trustees of the Social Security trust funds have projected that there will not be an increase in the average CPI-W for the third quarter of 2010 relative to the average CPI-W for the third quarter of 2008, which would result in no COLA also for 2011. Both CBO and the Social Security Administration (SSA) project that COLAs will resume in 2012.

This report is updated annually.

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How the Social Security COLA Is Determined

An automatic Social Security benefit increase reflects the rise in the cost of living over roughly a one-year period. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), updated monthly by the Bureau of Labor Statistics (BLS), is the measure used to compute the change. The Social Security cost-of-living adjustment (COLA) is based on the percentage change in the index from the highest third calendar quarter average CPI-W recorded (most often, from the previous year) to the average CPI-W for the third calendar quarter of the current year. The COLA becomes effective in December of the current year and is payable in January of the following year. (Social Security payments always reflect the benefits due for the preceding month.)

The January 2010 COLA

On October 15, 2009, BLS announced the September 2009 CPI-W figure, making it official that there would be no January 2010 COLA. The release of the September 2009 index amount made the comparison of the two July-September sets of CPI-W figures needed to compute the COLA (one for 2008 and another for 2009) possible. **Table 1** shows how a potential, if applicable, January 2010 COLA was computed under procedures set forth in Section 215(i) of the Social Security Act.

Table 1. Computation of a Social Security COLA, January 2010

	CPI-W Index Points
July 2008	216.304
August 2008	215.247
September 2008	214.935
Average for Third Quarter of 2008 (rounded to the nearest one-thousandth of 1%):	**215.495**
July 2009	210.526
August 2009	211.156
September 2009	211.322
Average for Third Quarter of 2009 (rounded to the nearest one-thousandth of 1%):	**211.001**
Percentage increase or decrease from the third quarter average for 2008 to the third quarter average for 2009 (*rounded to the nearest one-thousandth of 1% for initial calculations, but rounded to the nearest one-tenth of 1% for the final application, when positive, as required by law*):	211.001 – 215.495 = -4.494 -4.494 / 215.495 = -2.085 **-2.085%**
Social Security cost-of-living adjustment (*zero if the percentage increase is negative*):	**0%**

Source: BLS data series for the CPI-W for 2008 and 2009.

Note: The reference base period for the CPI-W is 1982-1984 (i.e., the period when the index equaled 100).

Scenario In Which No COLA Is Payable

The Social Security Act specifies that a COLA is payable automatically if there is an *increase* in the average CPI-W for the third quarter of the current year relative to the average CPI-W for the third quarter of the previous year.[1] Since 1975, when this provision became effective, a COLA has been paid every year. However, it is possible to have one or more years in which no COLA is payable. If the average CPI-W for the third quarter of the current year is equal to or less than the average CPI-W for the third quarter of the previous year, no COLA is payable.

For example, when the average CPI-W for the third quarter of 2009 was reported to be less than the average CPI-W for the third quarter of 2008 (211.011 and 215.495, respectively, as shown in **Table 1**), the authority to pay an automatic COLA in January 2010 was not triggered.[2]

Because the average CPI-W for the third quarter of 2009 is less than the average CPI-W for the third quarter of 2008, the third quarter of 2008 remains the "cost-of-living computation quarter" (i.e., the benchmark) that is used to determine the COLA payable in January 2011.[3] If the average CPI-W for the third quarter of 2010 is less than 215.495 (even if it is greater than the average CPI-W for the third quarter of 2009, 211.001), a COLA would not be payable in January 2011.

Social Security benefit amounts can not be reduced if the CPI-W *decreases* between the measuring periods. If the performance of the CPI-W does not trigger a COLA, benefits remain flat (prior to deductions for Medicare Part B and Part D premiums). However, in the absence of a COLA, changes in Medicare premiums may result in a net reduction in the Social Security payment amount. In addition, regardless of the effect of a COLA, beneficiaries could see a decrease in their net payment amount from year to year as a result of changes in their Medicare Part D selections and the associated premiums.[4]

What Else Is Affected Besides Social Security Benefits?

Social Security COLAs trigger increases in other programs. SSI benefits, veterans' pension benefits, and railroad retirement "tier 1" benefits (equivalent to a Social Security benefit) are increased by the same percentage as the Social Security COLA. Railroad retirement "tier 2" benefits (equivalent to a private pension) are increased by an amount equivalent to 32.5% of the

[1] Section 215(i)(1) of the Social Security Act.

[2] The Congressional Budget Office (CBO) and the trustees for the Social Security trust funds both predict that no COLA will be payable in 2011. For more information, see CBO, *The Budget and Economic Outlook: An Update*, August 2009, at http://www.cbo.gov/ftpdocs/105xx/doc10521/08-25-BudgetUpdate.pdf, pp 54-55, and The Social Security Administration (SSA), *The 2009 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Disability Insurance Trust Funds*, May 2009, at http://www.ssa.gov/OACT/TR/2009/tr09.pdf, p. 107.

[3] Section 215 (i) of the Social Security Act specifies that no COLA is payable in subsequent years until the average CPI-W for the third quarter of the current year is greater than that for the last cost-of-living computation quarter.

[4] For information on the interaction between the Social Security COLA and Medicare Part B premiums, see CRS Report R40561, *The Effect of No Social Security COLA on Medicare Part B Premiums*, by Jim Hahn and Alison M. Shelton.

Social Security COLA. Although COLAs under the Civil Service Retirement System (CSRS) and the federal military retirement system are not triggered by the Social Security COLA, these programs use the same measuring period and formula for determining their COLAs. As a result, their recipients also will likely not receive a COLA in January 2010.[5]

When a COLA is payable, other Social Security provisions are affected. The respective thresholds for the *taxable earnings base* and the *earnings test exempt amounts*[6] can only be increased when a COLA is payable. Though changes to thresholds for each respective provision are based on the percentage increase in national average *wages* (whereas the CPI-W reflects changes in *prices*), they are linked to the payment of a COLA. If a COLA is payable, then these thresholds increase by the percentage that the national wage index has increased. If no COLA is payable, these thresholds may not be altered, even if the national wage index experiences positive growth.[7] The taxable earnings base and the earnings test exempt amounts will not be increased in 2010.

Although not linked to the COLA, other changes are tied to the increase in national average wages. These provisions include the amount of earnings needed for a Social Security "quarter-of-coverage," the monthly substantial gainful activity amount for the non-blind disabled and blind disabled, and the annual coverage thresholds for domestic workers and election workers. These thresholds may be altered even if a COLA is not payable.

Table 2 shows the history of increases in Social Security benefits.

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[5] For retirees under the Federal Employees' Retirement System (FERS), a different formula is applied and the resulting increases may differ.

[6] For more information on the interactions between the taxable earnings base and the earnings test exempt amounts with the COLA, see SSA, October 2009, "Frequently Asked Questions About the 2010 Cost-of-Living Adjustment," at http://www.socialsecurity.gov/cola/2010/2010faqs.htm#q5.

[7] Sections 230(a) and 203(f)(8), respectively, of the Social Security Act.

Table 2. History of Social Security Benefit Increases

Date Increase Was Paid	Amount of Increase (shown as a percentage)
January 2010	0.0
January 2009	5.8
January 2008	2.3
January 2007	3.3
January 2006	4.1
January 2005	2.7
January 2004	2.1
January 2003	1.4
January 2002	2.6
January 2001	3.5
January 2000	2.5[a]
January 1999	1.3
January 1998	2.1
January 1997	2.9
January 1996	2.6
January 1995	2.8
January 1994	2.6
January 1993	3.0
January 1992	3.7
January 1991	5.4
January 1990	4.7
January 1989	4.0
January 1988	4.2
January 1987	1.3
January 1986	3.1
January 1985	3.5
January 1984	3.5
July 1982	7.4
July 1981	11.2
July 1980	14.3
July 1979	9.9
July 1978	6.5
July 1977	5.9
July 1976	6.4
July 1975[b]	8.0

Date Increase Was Paid	Amount of Increase (shown as a percentage)
April/July 1974[c]	11.0
October 1972	20.0
February 1971	10.0
February 1970	15.0
March 1968	13.0
February 1965	7.0
February 1959	7.0
October 1954	13.0
October 1952	12.5
October 1950	77.0

Source: Social Security Administration.

a. Originally computed as 2.4%, the COLA payable in January 2000 was corrected to 2.5% under P.L. 106-554.

b. Automatic COLAs began.

c. Increase came in two steps.

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