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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 usually receive an annual cost-of-living adjustment (COLA). Benefits will be increased by 1.5% in 2014, after an increase of 1.7% in 2013.

Social Security COLAs are based on changes in 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). The COLA equals the growth, if any, 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 was 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, and again in 2011 because the average CPI-W for the third quarter of 2010 remained below the average CPI-W for the third quarter of 2008. When the average CPI-W for the third quarter of 2011 exceeded that for 2008, establishing a new benchmark, a COLA was payable in 2012. Since the average CPI-W for the third quarters of 2012 and 2013 exceeded the average CPI-W for the third quarters of each respective preceding year, 2014 will be the third consecutive year in which a COLA will be paid.

Because a COLA of 1.5% will be paid to Social Security beneficiaries in 2014, identical percentage increases in Supplemental Security Income (SSI) and railroad retirement "tier 1" benefits will be paid, and other changes in the Social Security program will be triggered. Although COLAs under the federal Civil Service Retirement System (CSRS) and the federal military retirement program are not triggered directly 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 receive a 1.5% COLA in January 2014.

The Congressional Budget Office (CBO) and the trustees for the Social Security trust funds both project annual COLAs beyond 2014.

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 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 that can trigger a benefit increase. The Social Security cost-of-living adjustment (COLA) is based on the growth 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. If the CPI-W triggers a COLA, 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.) A COLA trigger mechanism was first adopted in P.L. 92-603, the Social Security Amendments of 1972, and triggered COLAs were first payable in 1975. Prior to 1975, COLAs were approved sporadically by Congress through the adoption of legislation.[1]

# The January 2014 COLA

On October 30, 2013, BLS announced the CPI-W figure for September 2013, the final month of the third quarter measuring period, allowing the Social Security Administration (SSA) to confirm that a 1.5% Social Security COLA will be effective in January 2014. The release of the September 2013 index amount made possible the comparison of the two July-September sets of CPI-W data needed to compute the COLA (one for 2012 and another for 2013). **Table 1** shows how the January 2014 COLA is computed under procedures set forth in Section 215(i) of the Social Security Act.

**Table 1. Computation of the Social Security COLA, January 2014**

| | CPI-W Index Points |
|---|---|
| July 2012 | 225.568 |
| August 2012 | 227.056 |
| September 2012 | 228.184 |
| *Average for Third Quarter of 2012 (rounded to the nearest one-thousandth of a point):* | **226.936** |
| July 2013 | 230.084 |
| August 2013 | 230.359 |
| September 2013 | 230.537 |
| *Average for Third Quarter of 2013 (rounded to the nearest one-thousandth of a point):* | **230.327** |
| Percentage increase or decrease from the third quarter average for 2012 to the third quarter average for 2013 (*rounded to the nearest one-tenth of 1% for the final application, when positive, as required by law*): | 230.327 – 226.936 = 3.391<br>3.391 / 226.936 = 0.0149<br>**1.5%** |
| Social Security cost-of-living adjustment (*zero if the percentage change is negative*): | **1.5%** |

**Source:** BLS data series for the CPI-W for 2012 and 2013.

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

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[1] The COLA is based on price growth to retain the purchasing power of monthly benefits over time for current beneficiaries. The initial computation of the base benefit amount for new beneficiaries uses a formula that is linked to overall wage growth. For more information, see CRS Report R42035, *Social Security Primer*, by Dawn Nuschler.

# Scenario In Which No COLA Is Payable

The Social Security Act specifies that a COLA is payable automatically if the average CPI-W for the third quarter of the current year is higher than the highest average CPI-W for the third quarter of past years, which is called the "cost-of-living computation quarter." From 1975, when this provision became effective, to 2008, a new cost-of-living computation quarter was established in each subsequent year, which triggered the payment of a COLA each year.

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 cost-of-living computation quarter, no COLA is payable. For example, the average CPI-W for the third quarter of 2009 was less than the average CPI-W for the third quarter of 2008 (211.001 and 215.495, respectively). As a result, an automatic COLA in January 2010 was not triggered and the third quarter of 2008 remained the cost-of-living computation quarter (i.e., the benchmark) used to determine if a COLA would be payable in January 2011.[2] Though the average CPI-W for the third quarter of 2010 (214.136) was greater than the average CPI-W for the third quarter of 2009, it did not exceed the average CPI-W for the third quarter of 2008. The third quarter of 2008 remained the cost-of-living computation quarter for at least one more year and a COLA was not payable in January 2011.

When the average CPI-W for the third quarter of 2011 (223.233) exceeded that for 2008, a 2012 COLA was triggered and the third quarter of 2011 became the cost-of-living computation quarter. New cost-of-living computation quarters were subsequently established in 2012 and 2013, when the average CPI-W for the third quarter of 2012 exceeded that for the third quarter of 2011, and again when the average CPI-W for the third quarter of 2013 exceeded that for the third quarter of 2012. The index for the 2013 measuring period will be used as the benchmark for comparison in 2014 for a possible COLA in 2015.[3] See **Table 2** for a recent history of average CPI-W performance for the third calendar quarter, and how that has affected changes to the cost-of-living computation quarter and the triggering of COLA payments in some years.

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[2] 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.

[3] The Congressional Budget Office (CBO) and the trustees for the Social Security trust funds both project continued annual COLAs beyond 2013. For more information, see CBO, "Social Security Old-Age and Survivors Insurance – February 2013 Baseline," February 2013, at http://www.cbo.gov/sites/default/files/cbofiles/attachments/43889-Social%20Security%20Old-Age%20and%20Survivors%20Insurance.pdf, p. 2, and Social Security Administration (SSA), *The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Disability Insurance Trust Funds*, section on program specific assumptions and methods, May 2013, at http://www.ssa.gov/OACT/TR/2013/V_C_prog.html#1017422, Table V.C1.

**Table 2. Average CPI-W for the Third Quarter, 2007-2013**

Cost-of-Living Computation Quarters and Potential COLAs

| Year | Average CPI-W for the Third Quarter | New Cost-of-Living Computation Quarter Established | Resulting COLA |
|---|---|---|---|
| 2007 | 203.596 | yes | 2.3% |
| 2008 | 215.495 | yes | 5.8% |
| 2009 | 211.001 | no (215.495 of 2008 retained) | no COLA |
| 2010 | 214.136 | no (215.495 of 2008 retained) | no COLA |
| 2011 | 223.233 | yes | 3.6% |
| 2012 | 226.936 | yes | 1.7% |
| 2013 | 230.327 | yes | 1.5% |

**Source:** Created by CRS using data from the U.S. Bureau of Labor Statistics

Social Security benefit amounts cannot 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 the same (prior to deductions for Medicare Part B and Part D premiums). Most beneficiaries are also protected from a net reduction in Social Security cash benefits that would be attributed to a scheduled Medicare Part B premium increase, if there is no COLA payable or if the Medicare Part B premium increase would exceed the dollar value of an applied COLA. However, regardless of the triggering 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 Is Affected Besides Social Security Benefits?

Social Security COLAs trigger increases in other programs. Supplemental Security Income (SSI) 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 Social Security COLA. Veterans' pension benefits most often are increased in the same amount as Social Security, but legislation must be passed annually for this purpose.[5]

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 will also receive a 1.5% COLA in January 2014.[6]

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[4] For more information on the impact of Medicare premiums on Social Security benefits, see CRS Report R40082, *Medicare: Part B Premiums*, by Patricia A. Davis.

[5] As of November 5, 2013, legislation providing a COLA for veterans' benefits in 2014 has not been enacted.

[6] In the Federal Employees' Retirement System (FERS), the COLA equals the Social Security COLA if inflation is 2% or less, but is lower than the Social Security COLA otherwise. For more information on the adjustment of federal program benefits for inflation, see CRS Report R42000, *Inflation-Indexing Elements in Federal Entitlement Programs*, coordinated by Dawn Nuschler.

When a COLA is payable, other Social Security program elements are affected. For example, the *taxable earnings base*, the *retirement earnings test (RET) exempt amounts*, and the *substantial gainful activity (SGA) earnings level for the blind* (Social Security disability beneficiaries) can be increased only when a COLA is payable. Though changes to those three elements are based on growth in national average *wages* (rather than changes in *prices*), they do not increase if no COLA is payable, even if average wages grow. If a COLA is payable, then these amounts increase by the percentage that the national average wage index has increased.[7] The taxable earnings base, the RET exempt amounts, and the SGA for the blind were frozen in 2010 and 2011 when no COLA was payable, but they did increase in 2012 and 2013 and will increase again in 2014.[8]

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

**Table 3** shows the history of increases in Social Security benefits.

[7] Sections 230(a), 203(f)(8), and 223(d)(4)(A) respectively, of the Social Security Act.

[8] For more information on the interactions between the taxable earnings base, the RET exempt amounts, the SGA limits, and other program elements with the COLA, see SSA, October 2013, "Cost-of-Living Adjustment (COLA) Information for 2014" at http://www.socialsecurity.gov/cola/.

**Table 3. History of Social Security Benefit Increases**

| Date Increase Was Paid | Amount of Increase (shown as a percentage) |
|---|---|
| January 2014 | 1.5% |
| January 2013 | 1.7 |
| January 2012 | 3.6 |
| January 2011 | 0.0 |
| 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 |

| Date Increase Was Paid | Amount of Increase (shown as a percentage) |
|---|---|
| July 1978 | 6.5 |
| July 1977 | 5.9 |
| July 1976 | 6.4 |
| July 1975[b] | 8.0 |
| 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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