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Social Security: Cost-of-Living Adjustments

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Updated October 26, 2017

Congressional Research Service
7-....
www.crs.gov
94-803

Summary

To compensate for the effects of inflation, Social Security recipients usually receive an annual cost-of-living adjustment (COLA). According to parameters outlined in the Social Security Act (42 U.S.C. 415(i)), a 2.0% COLA is payable in January 2018. For a retired worker receiving the average benefit amount of $1,377, the COLA will result in a $27 increase in Social Security benefits (for a total of $1,404).

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, January 2011, or in January 2016.

The January 2018 COLA will also be applied to Supplemental Security Income (SSI) and railroad retirement "tier 1" benefits, among other changes in the Social Security program. 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 similar COLA payable in 2018.

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How Is the Social Security COLA Calculated?

An automatic annual Social Security benefit increase is intended to reflect 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.[1] 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, Congress sporadically approved COLAs through the adoption of legislation.[2]

What Is the COLA to Be Paid in January 2018?

On October 13, 2017, the Social Security Administration (SSA) announced that a 2.0% Social Security COLA would be paid in January 2018.[3] The BLS release of the September 2017 CPI-W on that day made possible the comparison of the two July-September sets of CPI-W data needed to compute the COLA (one for 2016 and another for 2017). **Table 1** shows how the determination for a January 2018 COLA is computed under procedures set forth in Section 215(i) of the Social Security Act.

Table 1. Determination of a Potential Social Security COLA, January 2018

	CPI-W Index Points
July 2016	234.771
August 2016	234.904
September 2016	235.495
Average for Third Quarter of 2016 (rounded to the nearest one-thousandth of a point):	**235.057**
July 2017	238.617
August 2017	239.448
September 2017	240.939
Average for Third Quarter of 2017 (rounded to the nearest one-thousandth of a point):	**239.668**

[1] For more information on using the CPI-W and considering an alternate inflation index, see CRS Report R43363, *Alternative Inflation Measures for the Social Security Cost-of-Living Adjustment (COLA)*.

[2] 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*.

[3] Social Security Administration (SSA), "Social Security Announces 2.0 Percent Benefit Increase for 2018," press release, October 13, 2017, at https://www.ssa.gov/news/press/releases/#/post/10-2017-1. The Bureau of Labor Statistics announced the CPI-W figure for September 2016, the final month of the third quarter measuring period.

	CPI-W Index Points
Percentage increase or decrease from the third quarter average for 2016 to the third quarter average for 2017 and multiplied by 100% (*rounded to the nearest one-tenth of 1% for the final application, when positive, as required by law*):	((239.668-235.057)/235.057) * 100%= **2.0%**
Social Security cost-of-living adjustment (*zero if the percentage change is negative*):	**2.0%**

Source: Bureau of Labor Statistics data series for the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for 2016 and 2017.

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

Since automatic Social Security benefit COLAs began in 1975, there have been three years in which no COLA was payable: 2010, 2011, and 2016. 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.[4] 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 each year from 2012 to 2014, when the average CPI-W for the third quarter of 2012, 2013, and 2014 exceeded that for the third quarter of each preceding year.

Similarly, since the average CPI-W for the third quarter of 2015 (233.278) did not exceed that of 2014 (234.242), no COLA was paid in January 2016. Thus, for the COLA payable beginning in January 2017, the cost-of-living computation benchmark quarter remained the third quarter of 2014 where it was compared with the average CPI-W for the third quarter of 2016.[5]

[4] 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.

[5] The Congressional Budget Office (CBO) and the trustees for the Social Security trust funds both project continued annual COLAs beyond 2017. For more information, see CBO, "Social Security Old-Age and Survivors Insurance – Baseline Projections," June 2017, at https://www.cbo.gov/sites/default/files/recurringdata/51308-2017-06-socialsecurity.pdf, p. 2, and Social Security Administration (SSA), *The 2017 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, July 2017, at https://www.ssa.gov/oact/tr/2017/tr2017.pdf, Table V.C1.

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 COLAs in some years.

Table 2. Average CPI-W for the Third Quarter, 2007-2017

(cost-of-living computation quarters and COLAs)

Year	Average CPI-W for the Third Quarter	New Cost-of-Living Computation Quarter Established	Resulting COLA[a]
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%
2014	234.242	yes	1.7%
2015	233.278	no (234.242 of 2014 retained)	no COLA
2016	235.057	Yes	0.3%
2017	239.668	Yes	2.0%

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

a. Payable in January of the following year (when applicable).

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).

Medicare Part B and a Very Small or No COLA

The absence of a COLA increase (or a very small increase) may impact certain Medicare Part B enrollees. For Medicare Part B enrollees who have their Part B premiums withheld from their monthly Social Security benefits, a hold-harmless provision in the Social Security Act (§1839[f]) ensures that their net benefits will not decrease as a result of an increase in the Part B premium.

In most years, the hold-harmless provision has little impact; however, in a year in which there is a small or no increase in the Social Security COLA and a Part B premium increase, the hold-harmless provision may apply to a much larger number of people. For example, as a result of a 0% Social Security COLA in 2016 and a 0.3% COLA in 2017, an estimated 70% of Medicare beneficiaries were protected by this provision in those years and their premiums were reduced so that their Social Security benefits, net of the Medicare premium, would not decline.[6]

[6] The Bipartisan Budget Act of 2015 (BBA 2015; P.L. 114-74) provided some relief to the remaining 30% of beneficiaries not covered by the hold-harmless provision in 2016. This relief was not applicable in 2017. For more information on the impact of Medicare premiums on Social Security benefits, see CRS Report R40082, *Medicare: Part B Premiums* and CRS Report R44224, *Potential Impact of No Social Security COLA on Medicare Part B Premiums in 2016*.

The Medicare trustees project that 2018 Medicare Part B premiums will be about the same as in 2017, $134 per month.[7] Under this scenario, the dollar amount of the increase in many beneficiaries' monthly Social Security benefits in 2018 would be large enough to cover the difference between the 2017 premiums of those individuals held harmless (an average of $109 per month) and the expected 2018 standard premium of $134 per month (an average difference of $25). Thus, it is possible that many of those held harmless in 2017 will not be held harmless in 2018 and will return to paying the higher standard premium amount. For such individuals, a large portion of their 2018 Social Security COLA could be consumed by the increase in their Medicare Part B premiums. The actual 2018 Medicare premiums will likely be announced near the end of 2017 and could be higher or lower than projected.

Regardless of the size (or absence) of a COLA, beneficiaries may see a net reduction in Social Security benefits as a result of changes in their Medicare Part D selections and the associated premiums.[8]

What Is Affected Besides Social Security Benefits?

Other Programs

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 or are held constant when a COLA is not paid to Social Security beneficiaries. Railroad retirement "tier 2" benefits (equivalent to a private pension) are increased by an amount equivalent to 32.5% of the Social Security COLA. (If no COLA is paid to Social Security beneficiaries, then the railroad retirement tier 2 benefits are not increased.) Veterans' pension benefits often are increased in the same amount as Social Security, but legislation must be passed annually for this purpose.[9]

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. The COLA for recipients of Federal Employees' Retirement System (FERS) benefits equals the Social Security COLA if inflation is 2% or less, but is lower than the Social Security COLA otherwise.[10]

Program Elements

Some Social Security program elements, like the *taxable earnings base*, the *retirement earnings test (RET) exempt amounts*, and the *substantial gainful activity (SGA) earnings level for the blind* (which applies to Social Security disability beneficiaries), are indexed to wages, as opposed to

[7] Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, 2017 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, July 13, 2017, Table V.E2, at https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/index.html.

[8] See CRS Report R40611, *Medicare Part D Prescription Drug Benefit*, for details.

[9] Congress did not adopt COLAs for veterans' pensions in 2010, 2011, and 2016 when no Social Security COLA was paid.

[10] For more information on the adjustment of federal benefits for inflation, see CRS Report R42000, *Inflation-Indexing Elements in Federal Entitlement Programs*.

prices, but increase only when a COLA is payable.[11] Although changes to those three elements are based on growth in national average *wages* (rather than changes in *prices*), these elements can be increased only when a COLA is payable. If a COLA is payable, then these amounts increase by the percentage that the national average wage index has increased.[12] The taxable earnings base, the RET exempt amounts, and the SGA for the blind were unchanged in 2010, 2011, and 2016 when no COLA was payable.[13]

For example, had there been a COLA trigger in 2015, the taxable earnings base would have increased from $118,500 in 2015 to $122,700 in 2016.[14] Because there was no COLA trigger in 2015, the base instead remained unchanged. With the 0.3% COLA announced in 2016, the taxable earnings base increased in 2017 as well. Similar to how the COLA's reference period is calculated, the increase in the taxable earnings base is calculated on the increase in the average wage index from 2013 to 2015 (about 7.2%).[15] **Table 3** shows the history of Social Security COLAs.

[11] 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.

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

[13] For more information on the interactions between the taxable earnings base, the retirement earnings test (RET) exempt amounts, the substantial gainful activity (SGA) limits, and other program elements with the COLA, see SSA, October 2017, "Cost-of-Living Adjustment (COLA) Information for 2018," at http://www.socialsecurity.gov/cola/.

[14] The average wage index in 2015 ($48,098.63) was about 3.5% larger than the 2014 average wage index of $46,481.52 and the taxable earnings base is rounded to the nearest $300.

[15] Because the national average wage index tends to increase faster than the inflation of prices, these elements that are indexed to the growth in average wages tend to increase faster than the elements that are tied to the COLA.

Table 3. History of Social Security Cost-of-Living Adjustments

Date Increase Was Paid	Amount of Increase (percentage)
January 2018	2.0%
January 2017	0.3
January 2016	0.0
January 2015	1.7
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

Date Increase Was Paid	Amount of Increase (percentage)
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
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, "Historical Background and Development of Social Security," http://www.socialsecurity.gov/history/briefhistory3.htm, for data prior to 1975; "Social Security Cost-Of-Living Adjustments," http://www.socialsecurity.gov/oact/COLA/colaseries.html, for data since 1975.

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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Acknowledgments

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