



Social Security: Cost-of-Living Adjustments

Gary Sidor

Information Research Specialist

October 19, 2011

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Congressional Research Service

94-803

CRS Report for Congress

Prepared for Members and Committees of Congress

Summary

To compensate for the effects of inflation, Social Security recipients received cost-of-living adjustments (COLAs) through the legislative process sporadically from 1950 to 1974, and automatically through a trigger mechanism in each year from 1975 to 2009. No adjustment was made in 2010 and 2011, but benefits will increase by 3.6% in 2012. 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 that can trigger a 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 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. Because the average CPI-W for the third quarter of 2011 has exceeded that for 2008, a COLA (3.6%) is payable in 2012.

Because a COLA of 3.6% will be paid to Social Security beneficiaries in 2012, 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 3.6% COLA in January 2012.

The Congressional Budget Office (CBO) and the trustees for the Social Security trust funds both project a return to annual COLAs beyond 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 that can trigger a benefit adjustment. 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. 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.

The January 2012 COLA

On October 19, 2011, BLS announced the September 2011 monthly CPI-W figure, making it official that there would be a 3.6% Social Security COLA in January 2012, the first COLA in three years. The release of the September 2011 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 2011) possible. **Table 1** shows how the January 2012 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 2012

	CPI-W Index Points
July 2008	216.304
August 2008	215.247
September 2008	214.935
<i>Average for Third Quarter of 2008 (rounded to the nearest one-thousandth of 1%):</i>	215.495
July 2011	222.686
August 2011	223.326
September 2011	223.688
<i>Average for Third Quarter of 2011 (rounded to the nearest one-thousandth of 1%):</i>	223.233
Percentage increase or decrease from the third quarter average for 2008 to the third quarter average for 2011 (<i>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</i>):	$223.233 - 215.495 = 7.738$ $7.738 / 215.495 = 0.036$ 3.6%
Social Security cost-of-living adjustment (<i>zero if the percentage change is negative</i>):	3.6%

Source: BLS data series for the CPI-W for 2008 and 2011.

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 year in which the “cost-of-living computation quarter” was established. The cost-of-living computation quarter is the third quarter with the historical and present highest average CPI-W. 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.

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 cost-of-living computation quarter, 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), the authority to pay an automatic COLA in January 2010 was not triggered.¹

Because the average CPI-W for the third quarter of 2009 was less than the average CPI-W for the third quarter of 2008, the third quarter of 2008 remained the cost-of-living computation quarter (i.e., the benchmark) that was used to determine the COLA payable in January 2011.² When the average CPI-W for the third quarter of 2010 was reported to be less than the average CPI-W for the third quarter of 2008, a COLA was not payable in January 2011, even though it was greater than the average CPI-W for the third quarter of 2009. Now that the average CPI-W for the third quarter of 2011 has exceeded that for 2008, the third quarter of 2011 becomes the cost-of-living computation quarter. In other words, the COLA for 2013 will be based on the percentage increase in the average CPI-W from the third quarter of 2011 to the third quarter of 2012.

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 the same (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.³

¹ The Congressional Budget Office (CBO) and the trustees for the Social Security trust funds both project a return to annual COLAs beyond 2012. For more information, see CBO, *The Budget and Economic Outlook: An Update*, August 2011, at <http://www.cbo.gov/ftpdocs/123xx/doc12316/08-24-BudgetEconUpdate.pdf>, p. 66, and Social Security Administration (SSA), *The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Disability Insurance Trust Funds*, May 2011, at <http://www.ssa.gov/OACT/TR/2011/tr2011.pdf>, p. 106.

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 For information on the interaction between the Social Security COLA and Medicare Part B premiums, see CRS Report R40561, *Interactions Between the Social Security COLA and Medicare Part B Premiums*, by Jim Hahn and Alison M. Shelton.

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.⁴ 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 3.6% COLA in January 2012.⁵

When a COLA is payable, other Social Security program elements are affected. For example, the *taxable earnings base* and the *retirement earnings test (RET) exempt amounts* can only be increased when a COLA is payable. Though changes to the taxable earnings base and the RET exempt amounts 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 amounts increase by the percentage that the national average wage index has increased. If no COLA is payable, these amounts remain unchanged, even if the national average wage index experiences positive growth.⁶ The taxable earnings base and the RET exempt amounts had been frozen in 2010 and 2011 when no COLA was payable, but will increase in 2012.⁷

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 amounts for non-blind and blind Social Security disability beneficiaries, and the annual coverage thresholds for domestic workers and election workers. These amounts may be altered even if a COLA is not payable.

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

⁴ As of October 19, 2011, legislation providing a COLA for veterans’ benefits in 2012 has not been passed and enacted into law.

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

⁶ Sections 230(a) and 203(f)(8), respectively, of the Social Security Act.

⁷ For more information on the interactions between the taxable earnings base, the RET exempt amounts, and other program elements with the COLA, see SSA, October 2011, “Cost-of-Living Adjustment (COLA) Information for 2012” at <http://www.socialsecurity.gov/cola/>.

Table 2. History of Social Security Benefit Increases

Date Increase Was Paid	Amount of Increase (shown as a percentage)
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
July 1978	6.5
July 1977	5.9

Date Increase Was Paid	Amount of Increase (shown as a percentage)
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.