# Press Brief
# CPI – COLA Update

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For immediate use

**A Social Security cost–of–living–adjustment (COLA) of 8.7% is rare — enjoy it now.** This may be the first and possibly the last time that beneficiaries today receive a COLA this high. There were only three other times since the start of automatic inflation adjustments that COLAs were higher (1979-1981). You can find a history of the COLA here: https://www.ssa.gov/oact/cola/colaseries.html.

**Without a COLA that adequately keeps pace with inflation, Social Security benefits purchase less over time,** and that can create hardships especially as older Americans live longer lives in retirement. It is too early to say how well the 8.7% COLA will keep pace with inflation in 2023. The 5.9% COLA received this year has fallen short on average by 50%.

**Good news: The Medicare Part B premium is going down in 2023**. Medicare Part B —the part that pays for doctor and hospital outpatient services — is automatically deducted from Social Security checks. The standard Part B premium in 2023 will be $164.90, a decrease of $5.20 per month, from $170.10 in 2022. The annual deductible for Part B will also decrease from $233 in 2022 to $226 in 2023. This will mean that most beneficiaries will see more money after the deduction for Medicare premiums. More info about Medicare costs: CMS Newsroom.

**Bad news: Rising Social Security income due to COLAs can impact Medicare costs down the road.** Any increase in the income of a Medicare beneficiary — whether due to COLAs, earnings from jobs, retirement savings, or pensions —could potentially affect what an individual pays in Medicare premiums if income is over certain thresholds. This premium surprise affects both those with the highest incomes, as well as those with the lowest, but, in different ways.

Those who receive low-income assistance for healthcare costs can be subject to trims in the amount of assistance they receive through Medicare Savings programs or Medicare Extra Help, or Medicaid. Increased incomes due to the COLA can make older and disabled beneficiaries ineligible for the level of benefits they currently receive when their income exceeds the limits. According to a recent survey by The Senior Citizens League, 38 percent of survey participants who received low-income assistance in 2021 said their benefits were reduced to a lower level of assistance in 2022 due to the 5.9 percent COLA received this year. In addition, 16 percent reported that because their income was right on the borderline, and that they lost access to one or more low-income programs altogether. The survey found that 83 percent of all survey respondents support the enactment of legislation that would temporarily protect low-income Social Security recipients from losing their low-income assistance benefits due to the COLA received in 2023.

Higher-income Medicare beneficiaries may pay more in Part B and Part D premiums if incomes are higher than $97,000 (individuals) or $194,00 (joint). A boost in income can push beneficiaries into higher premium brackets.

**Tax issues: Two important inflation-related factors affect what older (and disabled) taxpayers may pay in taxes.** Up to 85% of Social Security benefits can be taxable if "provisional" income is above $25,000 (single filers), or $32,000 (joint filers). Unlike the rest of the tax code, the income thresholds that subject Social Security benefits to taxation, have never been adjusted for inflation since the tax became effective in 1984. Any increase in Social Security income due to cost–of–living - adjustments (COLAs), could mean a portion of, or a higher portion of Social Security benefits would be taxable if income exceeds the income thresholds. But the other factor — tax brackets, standard exemption, and the exemption for over 65 — are adjusted for inflation, and tax experts expect these to rise by a historically high amount next year. Rising tax brackets and the standard deduction could potentially offset much of the increase caused by higher income in 2022.

**Higher benefits could move the Social Security insolvency date forward.** The increase in Social Security income provided by the 2023 COLAs would permanently lift anticipated lifetime Social Security benefits. While that's great news for Social Security recipients in the short term, it also means that total benefit costs in future years will be significantly higher than previously anticipated. That could mean Social Security could become insolvent earlier than previously forecast.

**A recession could pressure Social Security's and beneficiaries' finances.** About 90% of funding for Social Security benefits comes from payroll taxes. High unemployment during a recession could cause a significant worsening in the finances of the Social Security Trust Fund. In addition, an abrupt turn to deflation could mean that there may be no COLA payable in 2024.

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