September 14, 2022
For immediate use

Comments from Mary Johnson, Social Security, and Medicare policy analyst, The Senior Citizens League

After evaluating the August consumer price data, what I'm finding clearly illustrates the weakness in our inflation adjustment system for Social Security. My COLA estimate has dropped to 8.7% almost a full percentage point from the 9.6% that I forecast last month. That was a significant drop, but the Consumer Price Index, CPI-W (CPI-W), the index that Social Security benefits are based on, has decreased even —by 1.10 percentage point year over year to 8.7%.

I have already heard from one disheartened long-time reader:

Calling the news "a shocker" he called on me to remind seniors that there's a "progressive LOSS OF BUYING POWER OF 40% despite SS COLA from 2000 and ... 10% from 2021-2022 alone. This means we have lost (almost) half our real income in face of COLAs. Clearly COLAs are SERIOUSLY INSUFFICIENT and many poor seniors as I who depend ONLY on SS (100% in my case) will financially drown."

One of the biggest issues in using the CPI-W to calculate the Social Security COLA is the fact that it does not track the spending of retired households age 62 and up and gives greater weight to gasoline and transportation costs. A significant drop in gasoline prices played an outsized role in why my COLA estimate has dropped. It's important that the public understand that to fight inflation the Administration temporarily lifted the 18.3 cents per gallon federal tax on gasoline for 90 days. That period started in July and ends in September, the SAME third quarter period that is used to calculate the COLA.

Across the board, retired and disabled Social Security recipients spend a bigger portion of their incomes on healthcare costs, housing, and food and less on gasoline. Over the past 12 months, they rank food costs as their fastest growing expenditure, housing, and transportation in that order.

Wall Street, however, clearly believes that the August numbers indicate that inflation is still with us, and higher than hoped. We agree. In fact, according to the Bureau of Labor Statistics August press release, "increases in shelter, food and medical care were the largest of many contributors" to the August increase. Those higher costs did not prevent the decline in the COLA estimate because those costs are not given the weighting or importance that reflects how retirees and disabled Americans spend their incomes, but how younger healthier working adults spend theirs.

The Senior Citizens League has for more than 2 decades advocated for tying the annual COLA to an index that more closely reflects the actual spending patterns of older Americans.

Q: Would his problem reduce the ability of benefits to catch up with inflation for 2023?

I would say while this is currently a chronic problem every year, yes, indications are that the COLA will not reflect pockets of persistently high inflation affecting retired and disabled Social Security recipients. That puts tens of millions of retirees at risk of continuing to fall behind, or as our reader described "financial drowning."

Those who receive Social Security are quick to confirm they are not just at risk, those who have been retired for any length of time, have fallen behind financially. The buying power of Social Security benefits has occasionally improved in the past but that may not be enough when retirees have spent down their savings to stay afloat in years when inflation was going up.

The lifeboat is leaking and taking on water leaving older Americans at risk of financial drowning.

- Based on new CPI-W data through August, it appears the Social Security cost-of-living adjustment (COLA) for 2023 will be: 8.7%.

- The CPI-W decreased for the second straight month in August.

A COLA of 8.7% would increase the average retiree benefit of $1,656 by $144.10 (rounded as done by SSA). Readers can calculate the increase by taking their gross Social Security benefit (the amount prior to deductions for Medicare premiums and any tax withholdings) and multiplying it by .087: For example - $1,000 x .087 = $87.00
For more benefit examples see – Social Security Monthly Statistical Snapshot.

There is only one month of consumer price data left to go. We expect the Social Security Administration to announce the COLA, on October 13, 2022, after the release of the September consumer price index data. For more information about how the COLA is calculated: COLA Computation.

A COLA of 8.7% is extremely rare and would be the highest ever received by most Social Security beneficiaries alive today. There were only three other times since the start of automatic adjustments that it was higher (1979-1981). You can find a history of the COLA here: https://www.ssa.gov/oact/cola/colaseries.html.
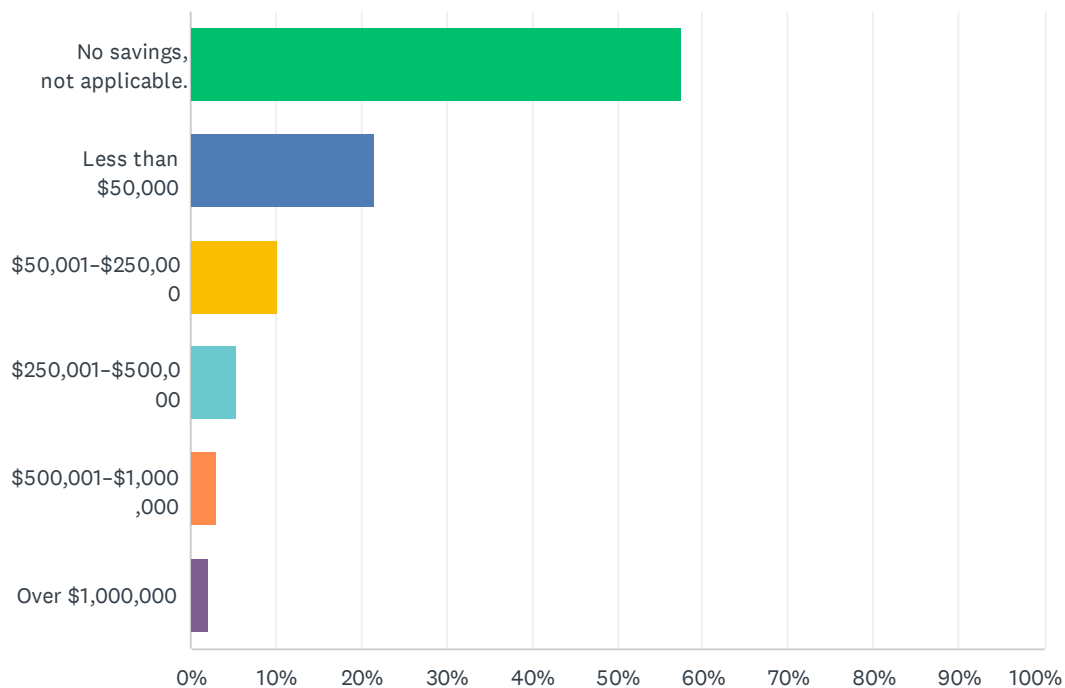
Media Contacts:
Shannon Benton 1-800-333-TSCL (8725)
sbenton@tsclhq.org

Mary Johnson: (540) 832-5513
mary.johnson.nld@gmail.com

How much in liquid assets does your household have available for retirement savings and income? (Please do not include the value of your primary residence.)

Answered: 630   Skipped: 0

ANSWER CHOICES	RESPONSES	
No savings, not applicable.	57.62%	363
Less than $50,000	21.59%	136
$50,001–$250,000	10.32%	65
$250,001–$500,000	5.40%	34
$500,001–$1,000,000	3.02%	19
Over $1,000,000	2.06%	13
TOTAL		630