

**2020 Loss of Buying Power Study
Social Security Benefits Lose 30% Of Buying
Power Since 2000**

**The Senior Citizens League
Mary Johnson, Social Security Policy Analyst**

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Summary:

Retirees frequently say that their annual cost-of-living adjustment (COLA) does not adequately keep pace with rising costs. To learn if this is the case, this study, now in

its eleventh year, looks at 40 expenditures that are typical for people age 65 and up, comparing the growth in the prices of those goods and services, to the growth in COLAs.

This year's study finds that Social Security benefits have lost 30 percent of buying power since the year 2000. This represents a 3-percentage point improvement in Social Security buying power from our 2019 study, which found a loss of 33 percent since 2000. While lower prices are good news in the short term, the deflationary trend suggests a very low *COLA* in 2021.

Inadequate COLAs have long-term consequences for both retiree finances and health. COLAs affect the amount of total lifetime Social Security income, and that in turn affects the rate of withdrawals from retirement accounts and savings, debt levels. Adequate income in retirement also determines whether individuals have the finances to pay for supplemental Medicare health premiums, out-of-pocket costs and prescription drugs.

With Medicare Part B premiums growing several times faster than COLAs, premiums routinely offset a significant portion of the annual inflation boost. This, in turn, causes retired households to draw down savings more rapidly than planned, and many retired households to carry growing amounts of debt. Lower income households may go without adequate food, medically necessary health services, and to postpone filling prescriptions.

Between January of 2000 and January of 2020, Social Security COLAs increased benefits by 53 percent, but the cost of goods and services purchased by typical retirees rose by almost twice as much — 99.3 percent. Medicare premiums and out-of-pocket costs, housing, and homeowner's insurance were among the most rapidly - rising costs over the past year.

For every \$100 a retired household spent in 2000, that household can only buy about \$70 worth of the same goods and services today. For example, in 2000, the average annual cost of homeowners' insurance was \$508 per year. In 2020 however, the average cost is \$1,518.97, an increase of 174 percent over the period. In 2000, the average Social Security benefit was \$816 per month. A retiree with \$816 could pay their entire annual homeowners insurance bill and still have money left over. By 2020, however, COLAs increased the \$816.00 benefit to just \$1,246.20. Households with a benefit of \$1,246.20 must make insurance payments over several months, dig deeper into savings, or borrow to cover the cost of their policy.

The COLA is intended to protect the purchasing power of the benefits received by older and disabled Americans. A 30 percent loss in buying power over a 20 - year retirement period indicates the COLA is failing to provide that protection. The Social Security COLA, as currently calculated, is a poor match to the price changes actually experienced by the people it is intended to protect.

Major Findings

Social Security benefits are one of the few types of retirement income to be automatically adjusted annually for inflation. In 2020, more than 61 million Social Security recipients received a 1.6 percent annual COLA, which raised the average \$1,460 benefit by \$23.40 per month.

However, for many retirees age 65 and up, most or even all their COLA was offset by rising Medicare premiums and out-of-pocket costs. A recent survey conducted by TSCL found that 48 percent of survey participants reported that, after the deduction for just the Part B premium, their COLA increased their Social Security benefit by less than \$15. Another 6 percent of survey respondents reported no increase to their net benefits at all.

This study has found that Social Security benefits tend to lose buying power over time, because prices of the goods and services most frequently purchased by older Americans tend to increase more quickly than the COLA. In this year's study, price data indicate that Social Security benefits lost 30 percent of buying power since 2000. The 2020 findings represent an improvement in benefit buying power of 3 percentage points from January 2000 through January 2020. Several items came down in price, particularly electricity, as well as a few food items including fresh fruits and vegetables.

Please note the January 2019 to January 2020 period covered by this study does not include the recent impacts of the coronavirus or the collapse in oil prices.

Background

Since 2000, COLAs have increased Social Security benefits a total of 53 percent, yet typical senior expenses grew almost twice as fast — 99.3 percent. Table 1. illustrates ten of the fastest growing costs since 2000. Where no average prices are available, numeric values from the U.S. Bureau of Labor Statistics CPI-U are used. Table 2. shows the fastest growing costs from January 2019 to January 2020.

Table 1. Top Ten Fastest Growing Costs of Older Americans Since 2000

Item	Cost in 2000 Average cost \$ or numeric data	Cost in 2020 Average cost	Percent Increase Since 2000
1. Prescription drugs Annual average out- of- pocket (annual)	\$1,102.00	\$3,875.76	252%
2. Medicare Part B premiums (monthly)	\$45.50	\$144.60	218%
3. Homeowner's insurance (annual)	\$508.00	\$1,389.90	174%
4. Home heating oil (gallon)	\$1.15	\$3.12	172%
5. 10 lbs. potatoes (gold)	\$2.98	\$7.98	168%
6. Veterinarian services	109.300	272.904	150%
7. Medigap (average monthly premium, all plans)	\$119.00	\$295.64	148%
8. Total medical costs, not including premiums (annual)	\$6,140.00	\$14,162.00	131%
9. Real estate tax (annual)	\$690.00	\$1,579.06	129%
10. Oranges (lb.)	\$.61	\$1.34	120%

Table 2. Fastest Growing Costs of Older Americans January 2019 – January 2020

Item	Cost in 2019 Average cost \$ or numeric data*	Cost in 2020 Average cost \$ or numeric value*	Percent Increase since 2020
1. Gasoline, all grades (gallon)	\$2.33	\$2.67	14.6%**
2. Milk (gal.)	\$2.91	\$3.25	11.7%
3. Medicare Part B premiums	\$135.50	\$144.60	6.7%
4. Medigap premiums	\$279.55	\$295.64	5.8%
5. Homeowners insurance (annual)	\$\$1,327.50	\$1,389.90	4.7%
6. Veterinarian	260.653*	272.904	4.7%
7. Dental, general visits	\$509.21	\$529.58	4%
8. Rental of primary residence	325.597*	337.825*	3.8%
9. Total medical expenses, not including premiums	\$13,665.00	\$14,151.00	3.6%
10. Ownership of primary residence	320.789*	331.522*	3.3%

*Where no average prices are available, numeric data from the U.S. Bureau of Labor Statistics CPI-U are used.

**Gasoline prices as of April 27, 2020 fell to \$1.87(gal.), a very significant decrease of 80 cents and 42.8% lower than the January 2020 price of \$2.67.

What the Average Benefit Would Have to Be to Maintain Buying Power

The average Social Security benefit in 2000 was \$816 per month. That benefit grew to \$1,246.20 by 2020 due to COLA increases. However, because retiree costs are rising at a faster pace than the COLA, this study found that a Social Security benefit of \$1,626.20 per month in 2020 would be required *just to maintain the same level of buying power as in 2000*.

The majority of the 60 million Americans who receive Social Security depend on their benefits for at least 50 percent of their total income, and one – quarter of all beneficiaries rely on it for 90 percent or more of their income. To help protect the buying power of benefits, The Senior Citizens League supports legislation that would strengthen the COLA in three ways:

1. Calculate COLAs based on the consumer price index that better reflects the spending patterns of retirees - the Consumer Price Index for the Elderly (CPI-E).
2. Provide a modest boost in monthly benefits to retirees to make up for years when no COLA or only a negligible COLA was payable.
3. Guarantee a minimum COLA of no less than 3 percent.

To learn more, visit www.SeniorsLeague.org.

Methodology:

This study examined the increase in costs of 40 key items purchased by people age 65 and older, between 2000 and January 2020 (Table 4). The items were chosen not only because they are typical of the costs that older people must bear, but also because they include common expenditures, such as Medicare Part B and D premiums, that are not tracked under the consumer price index used to adjust Social Security benefits. Of the 40 costs analyzed, 26 exceeded the percentage of increase in the COLA over the 2000 to 2020 period, while 14 grew more slowly.

In order to determine how the purchasing power of Social Security benefits is affected from year to year, the average benefit in January of 2000 was adjusted using COLA increases through January 2020. The average Social Security benefit was \$816 in 2000. COLAs increased benefits 53 percent over the 20-year period, increasing this benefit to \$1,246.20 in 2020.

The study found that typical retiree expenditures have increased over the same period by 99.3 percent for the 40 expenditure items. That means the \$816 average benefit in 2000 would have needed to increase to \$1,626.20 per month *just to maintain the same level of buying power as in 2000*.

The loss of buying power was then determined by dividing the difference in the amount that beneficiaries would need to keep up, \$380, by the amount actually received in 2020, \$1,246.20. That represents a 30 percent loss of buying power since 2000.

The 40 selected items represent eight categories, weighted by expenditure. The study used somewhat similar weightings to those used in calculating the Consumer Price Index for the Elderly (CPI-E).

Table 3. illustrates trends for the COLA for the year following the year of our Loss of Buying Power Study findings. Based on inflation through the month of August 2020, we estimate the COLA for 2020 will be about 1.3 percent. This number could change with subsequent inflation data. The Social Security Administration announces the COLA (payable effective January,) in October.

Table 3.
TSCL's Social Security Loss of Buying Power Study and COLA Trends for 2010-2020

Year	Loss of Buying Power Findings	Loss or Gain in Buying Power	COLA (Announced in October, effective January 1 the following year.)
2010	24%		0%
2011	32%	(- 8%) loss	3.6%
2012	34%	(- 2%) loss	1.7%
2013	31%	+ 3% gain	1.5%
2014	31%	No change	1.7%
2015	22%	+ 9% gain	0%
2016	23%	(- 1%) loss	0.3%
2017	30%	(- 7%) loss	2.0%
2018	34%	(-4%) loss	2.8%
2019	33%	+ 1% gain	1.6%
2020	30%	+ 3% gain	

The chart below illustrates the changes in item costs from 2000 to 2020. Where no average prices are available, numeric values from the U.S. Bureau of Labor Statistics CPI-U are used.

Table 4.
Loss of Buying Power Data Sources 2020

Category	Expense	Average cost or numeric value in Jan 2000	Average cost or numeric value in Jan 2020	Percent Increase, 2000-2020
Housing	Own	195.700	331.522	69% ¹
Housing	Rental	180.800	337.825	87% ²
Housing	Homeowner's insurance (annual)	\$508.00	\$1,389.90	174% ³
Housing	Real estate tax (annual)	\$690.00	\$1,579.06	129% ⁴
Housing	Heating oil (gallon)	\$1.15	\$3.12	172% ⁵

Housing	Propane gas (dollars per gallon)	\$1.01	\$2.01	99% ⁶
Housing	Electricity per kilowatt hr	\$.08	\$.13	63% ⁷
Transportation	New vehicles	143.300	147.253	3% ⁸
	Used vehicles	153.900	136.064	-12% ⁹
Transportation	All grades gas (gallon)	\$1.31	\$2.67	104% ¹⁰
Transportation	Maintenance/repair	174.600	300.112	72% ¹¹
Transportation	Services including motor vehicle insurance, airline fare	193.000	324.500	68% ¹²
Transportation	Motor vehicle insurance	395.974	572.693	45% ¹³ (since 2012)
Medical	Total medical expenses, not including premiums	\$6,140.00	\$14,151.00	130% ¹⁴
Medical	Prescription drugs, generic, brand, special.	\$1,102.00	\$3,875.76	252% ¹⁵
Medical	Dental, general visits	\$286.00	\$529.58	85% ¹⁶
Medical	Medicare Part B premiums (monthly)	\$45.50	\$144.60	218% ¹⁷
Medical	Medicare Part D premiums average weighted for enrollment	\$25.93	\$42.05	62% ¹⁸ since 2006
Medical	Medigap average premium, all plans	\$119.00	\$295.64	148% ¹⁹
Food	10 lbs. potatoes	\$2.98	\$7.98	168% ²⁰
Food	1 lb. cheddar cheese	\$3.84	\$5.32	41% ²¹
Food	Milk (gal.)	\$2.79	\$3.25	17% ²²
Food	Eggs (dz.)	\$0.93	\$1.46	50% ²³
Food	Ground chuck (lb.)	\$1.90	\$4.03	112% ²⁴

Food	Chicken (lb.)	\$1.06	\$1.41	33% ²⁵
Food	Coffee (lb.)	\$3.54	\$4.17	18% ²⁶
Food	Bread, white (loaf)	\$.91	\$1.35	48% ²⁷
Food	Apples (lb.)	\$.95	\$1.56	64% ²⁸
Food	Oranges (lb.)	\$.61	\$1.34	120% ²⁹
Food	Tomatoes	\$1.44	\$2.22	54% ³⁰
Food	Bacon	\$2.75	\$5.51	100% ³¹
Recreation	(all items in category)	102.300	121.986	19% ³²
Recreation	Movie ticket	\$5.39	\$9.16	70% ³³
Recreation	Pets and pet products	144.300	180.442	25% ³⁴
Recreation	Veterinarian services	109.300	272.904	150% ³⁵
Communication	Basic phone service, land lines, local	\$27.69	\$51.64	86% ³⁶
Communication	First class postage	\$0.33	\$0.55	67%
Apparel	Clothing	126.800	120.853	-5% ³⁷
Other	Personal care products	152.800	159.470	4% ³⁸
Other	Personal care services	174.900	237.024	36% ³⁹

Weighting:

We used the weighting of the Consumer Price Index for the Elderly (CPI-E)⁴⁰ to suggest our weighting guidelines.

Expenditure Group	CPI-E	TSCL Survey
Housing	46.3	46.7
Transportation	13.5	12.0
Medical	12.2	14.0
Food	13.2	12.7
Recreation	5.5	5.4
Communication	4.2	4.2
Apparel	2.0	1.9
Other	3.1	3.1

¹ Homeowners, CPI-U, January 2000 through January 2020, Bureau of Labor Statistics, February 13, 2020.

² Rental of Primary Residence CPI-U, January 2000 through January 2020, Bureau of Labor Statistics, February 13, 2020.

³ Average Premiums For Homeowners and Renters Insurance, Insurance Information Institute, April 3, 2020. <http://www.iii.org/media/facts/statsbyissue/homeowners/>
Methodology: Rate of increase extended from 2017 through 2020 based on percentage of historic average rate of increase. To be adjusted year to year.

⁴ Real estate tax, Orange County Virginia, files of Mary Johnson, 2000 through December 2019. Virginia ranks approximately 21 of 50 in order of the average amount of property taxes collected. <http://www.tax-rates.org/virginia/property-tax>.

⁵ Retail prices of residential heating oil 2000 - through January 6, 2020, Energy Information Administration, April 3, 2020.

http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=W_EPD2F_PRS_NUS_DPG&f=W.

⁶ Residential prices natural gas 2000 - through January 6, 2020, Energy Information Administration, April 3, 2020.

http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=W_EPLLPA_PRS_NUS_DPG&f=W

⁷ Average retail price of electricity to customers, 2000-2020, Bureau of Labor Statistics Average Price Data through January 2020.

⁸ New motor vehicle costs, CPI-U, January 2000 through January 2020, Bureau of Labor Statistics, February 13, 2020.

⁹ Used motor vehicle costs, CPI-U January 2000 through January 2020, Bureau of Labor Statistics, February 13, 2020.

¹⁰ Retail prices of gasoline, all grades 2000- through January 6, 2020, Energy Information Administration. http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMM_EPM0_PTE_NUS_DPG&f=W .

¹¹ Maintenance and repair data, CPI-U, January 2000 through January 2020, Bureau of Labor Statistics, February 13, 2020.

¹² Transportation services, CPI-U, January 2000 through January 2020, Bureau of Labor Statistics, February 13, 2020.

¹³ Transportation Motor Vehicle Insurance, CPI-U, January 2012 through January 2020, Bureau of Labor Statistics, February 13, 2020.

¹⁴ 2019 Medicare Trustees Report, April 22, 2020, Table V.D1. Beneficiary Costs, page 188.

¹⁵ Medicare Part D Average Annual Gross Drug Costs Per Capita, Centers for Medicare and Medicaid Services. Methodology: Data through 2017. Adjusted for 2018 - 2019 using National Health Expenditures 2018, accessed April 8, 2020.

¹⁶ Costs for 2017 through 2019 based on National Health Expenditures 2018, CMS, accessed April 8, 2020. Drilling Down on Dental Coverage and Costs For Medicare Beneficiaries, Kaiser Family Foundation, March 13, 2019. <https://www.kff.org/medicare/issue-brief/drilling-down-on-dental-coverage-and-costs-for-medicare-beneficiaries/> .

¹⁷ Medicare Premiums for 2020, CMS.

¹⁸ “Medicare Part D: A First Look at Prescription Drug Plans 2020,” Kaiser Family Foundation, November 2019.

¹⁹ Starting premium: “Estimation of Hedonic Pricing Model For Medigap Insurance, Table 2 Average Premiums by Plan — Year 2000,” John Robst, Health Services Research, National Institute of Health, 2006. “Medigap Spotlight on Enrollment, Premiums, and Recent Trends, Kaiser Family Foundation, April 2013. <http://kff.org/medicare/report/medigap-enrollment-premiums-and-recent-trends/> Data through 2016 estimated based on historical rate of increase. Healthmarkets.com posted average premium by plan, averaged across all plans, December 3, 2019. <https://www.healthmarkets.com/resources/medicare/cost-of-supplemental-health-insurance-for-seniors/>.

²⁰ Sam’s Club Charlottesville Virginia, 2000 - 2020, 10 pound gold potatoes, www.sams.com.

²¹ U.S. Retail price of cheddar cheese 1995-2019, Statista.com, accessed April 9, 2020.

²² Average price data 2000 through January 2020, Bureau of Labor Statistics, accessed on April 3, 2020.

²³ Ibid.

²⁴ Ibid.

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- ²⁵ Ibid.
- ²⁶ Ibid.
- ²⁷ Ibid.
- ²⁸ Apple prices as tracked in the Produce Blue Book, accessed on April 25, 2020.
- ²⁹ Average price data 2000 through January 2020, Bureau of Labor Statistics, accessed on April 3, 2020.
- ³⁰ Ibid.
- ³¹ Ibid.
- ³² Recreation, CPI-U data January 2000 -January 2020, Bureau of Labor Statistics, February 13, 2020.
- ³³ Movie ticket: Average Ticket Prices, The National Association of Theater Owners, April 16, 2020.
<http://natoonline.org/data/ticket-price/>. Rate of increase through January 2019 uses data through 2018 and extended based average annual amount of increase.
- ³⁴ CPI-U data January 2000-January 2020, February 13, 2020.
- ³⁵ Ibid.
- ³⁶ Basic local residential phone service Verizon, January 2000 through January 2020.
- ³⁷ Apparel data from CPI-U, January 2000 through January 2020, Bureau of Labor Statistics, February 13, 2020.
- ³⁸ Personal care data from CPI-U, January 2000 through January 2020, Bureau of Labor Statistics, February 13, 2020.
- ³⁹ Ibid.
- ⁴⁰ 2017-2018 Weights for CPI-E, Bureau of Labor Statistics, April 10, 2020.