Eldercare Q&A December, 2011

Finally, a COLA!

Q: Are elders happy with a 3.6% cost of living increase?

A: Yes, especially after two straight years with a 0% Social Security cost of living adjustment (COLA). But many seniors feel that the COLA that Congress uses is not a good measure of the living expenses actually facing the elderly.

On October 19th, the Social Security Administration announced that Social Security checks will rise by 3.6% beginning January of 2012. By comparison, the COLA increased 5.8% in January of 2009. Since 1975, Social Security's general benefit increases have been based on increases in the cost of living, as measured by the Consumer Price Index for urban workers.

Beginning this January, the typical retired worker earning $1,186 will see his/her monthly check rise by $43 per month to $1,229. Over the course of a year, the 2012 COLA amounts to $516 a year in increased benefits. The typical disabled worker will see a benefit check rise from $1,072 to $1,111, or $39 more per month.

Although the COLA hike was good news for 60 million Americans on Social Security and Supplemental Security Income, the numbers show just how meager Social Security is for most retirees---before any cutbacks are made by Congress to the program. The estimated average annual earning for retired workers will be only $14,748 after the latest COLA increase kicks in this January.

Even though the COLA is the only way retirees can cope with the rising cost of daily living, Congress is considering changes in the method used to calculate the COLA. Some lawmakers argue that the current consumer price index does not accurately reflect the inflation experienced by seniors and argue that the COLAs should be larger. Others argue that the COLAs should be smaller.

The federal government actually calculates what is known as the "CPI-E," a measurement that more accurately reflects the market basket of goods and services purchased by the elderly. But opponents of a CPI-E argue that more than 20% of the people on Social Security are under the age of 62.

Congress is also being lobbied to adopt the "chained CPI," which takes into account the tendency for people to substitute cheaper goods for more expensive items as prices go up. For example, if the price of pork increases but the price of beef does not, consumers might shift from pork to beef. The chained CPI adjusts for this type of consumer substitution. But elderly households spend about twice as much on health care as all other households, and unlike discretionary spending, health care cannot be substituted or short-changed. Elders won't like the chained CPI because the average earner retiring in 2011 at age 65 would lose roughly $6,000 over 15 years if the chained CPI were adopted compared with the current urban worker CPI.

So while seniors may be happy to get a 3.6% cost of living adjustment now—the COLA wars are just beginning.