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Social Security to Rise Slightly

Beginning January, recipients should see payments go up by at least 1.5 percent. But the increase probably won't be enough to cover higher everyday prices.

by Polina Vlasenko, PhD, Research Fellow

Social Security recipients will see their checks increase in January, but the cost-of-living adjustment, or COLA, will be much smaller than last year. Our estimate puts the COLA for 2013 at 1.5-1.7 percent. This is roughly two percentage points below last year's increase of 3.6 percent. It's probably not large enough to fully compensate for the rising prices of everyday goods and services.

The COLA is based on the *Consumer Price Index for Urban Wage Earners and Clerical Workers* (CPI-W). (This is different from the *Consumer Price Index for All Urban Consumers*, the index widely used in press discussions of inflation.) The Social Security Administration determines the size of the COLA by comparing the CPI-W in the third quarter of the current year to the third quarter of the previous one. The value of the index for September 2012 will be released October 16. The trend to date indicates that the COLA will be positive. (See chart below.)

Seniors who rely on their Social Security checks to cover everyday expenses—food, utilities, gasoline, and medical care—may find that a 2013 increase of 1.5-1.7 percent will fail to keep pace with rising prices.

As measured by AIER's Everyday Price Index (EPI), August prices of frequently purchased goods and services increased 2 percent, compared to a year ago. Among these items, food and beverages rose 2 percent, motor fuel rose 1.9 percent, and medical care rose 4.1 percent.

The EPI can serve as an approximate measure of the necessary month-to-month expenses that seniors face. The proprietary index excludes the prices of infrequently purchased big-ticket items and payments that are contractually fixed. This encompasses houses, cars, and other durable goods.

Retirees often have paid off their housing and may not need new appliances or cars. But they still need to meet basic expenses.

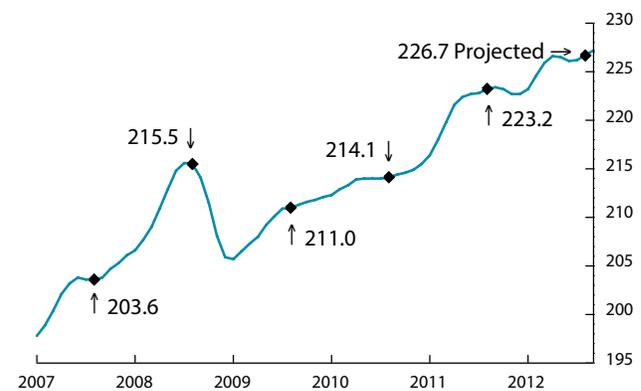
In contrast, the CPI-W, the government index tied to the COLA, covers items with prices that tend to rise more slowly than everyday purchases. Refrigerators, for example, have comparatively steady prices. It also covers items that often post falling prices: Products associated with information technology typically get cheaper over time. This means that the increase in Social Security checks this coming January may not be sufficient to cover the rising cost of everyday goods.

In addition, if Medicare Part B premiums are deducted from Social Security benefits, an increase in the premiums may cut into the COLA increase or eliminate

The CPI-W Trends Upward

(3-month moving average, 1982-84=100)

The size of the cost-of-living adjustment is equal to the increase in the index from 2011 Q3 to 2012 Q3.



Source: Bureau of Labor Statistics

AIER's website contains numerous articles on Social Security payments and benefits. We also post regular updates of our proprietary Everyday Price Index. The EPI tracks month-to-month changes in the basic expenses seniors must meet. To track the inflation that will affect your household budget, go to aier.org.



it. The Centers for Medicare and Medicaid Services determine Medicare premiums, which are usually published in the *Federal Register* in early November.

A positive COLA also triggers adjustments that affect people other than retirees. One such adjustment pertains to the maximum amount of earnings subject to the Social Security payroll tax. While triggered by the COLA, this change is not equal to it in size. Instead, it is based on the increase in the national average wage index. This year, the maximum earnings subject to Social Security tax is \$110,100. The increase for 2013 will

be determined by the Social Security Administration in late October.

Other automatic adjustments triggered by changes in the average wage index and the COLA affect Supplemental Security Income benefits, retirement earnings exempt amounts, and the earnings required for one Social Security credit.

The complete list of all automatic adjustments will be published in the *Federal Register* later this month. The Social Security Administration also usually publishes them on their website, www.socialsecurity.gov.