2016 Cost of Living Adjustments and Social Security Benefits

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Foreword

At Disability Experts of Florida, we take great pride in keeping our clients, readers and neighbors in-the-know on ongoing Social Security news and updates. We strive to be your resource for all things Social Security, SSDI and SSI.

Every year, the Social Security administration uses nationwide data from the U.S. Bureau of Labor Statistics to adjust and refine Social Security benefits for inflation and consumer activity - the cost of living at a certain financial standard, which changes progressively with time.

The annual Cost of Living Adjustment (COLA) for 2015-2016 has been announced, and in this guide, we explain what the COLA means for you and your Social Security benefits.

The 2016 COLA

The 2016 Cost of Living Adjustment rate is quite rare as far as COLA figures historically go. This year, there will be a 0% COLA increase, which has only occurred twice since the introduction of COLAs in 1975. Previous 0% adjustments occurred consecutively in 2009 and 2010, when annual increases to the CPI-W, or Consumer Price Index for Urban Wage Earners and Clerical Workers, were too low to warrant COLAs.

> *With 2015's 0% CPI-W increase, the COLA may as well have not happened.*

What does this mean, strictly speaking, for Social Security benefit programs such as Supplementary Security Income (SSI) and Social Security Disability Insurance (SSDI)? A zero percent increase in Cost of Living translates into a zero percent increase in income-based benefits. The standard cost of living has not increased, so neither will the benefits Social Security provides to help families meet that standard.

SSI benefits, specifically, are adjusted based on minimum income levels for individuals and couples throughout the United States. As the minimum income level has remained largely unchanged between 2014 and 2015, there will be no 2016 adjustment amount to SSI. It costs the same to maintain a standard of life, so, by law, no increase is payable.

How COLAs are calculated

The annual COLA is calculated by comparing year-over-year CPI-W figures, typically the average of July, August and September's amounts. Any noticeable change (as high as 11% and as low as 1.3%) will result in like adjustments to Social Security benefit payments. The idea is to keep beneficiary income above the average cost of living amount - the amount an individual must earn each month to achieve a certain standard of life.

What is the CPI-W?

“CPI-W” stands for the Consumer Price Index for Urban Wage Earners and Clerical Workers, which is essential the benchmark metric for all Cost of Living Adjustments. The U.S. Bureau of Labor Statistics uses CPI-W statistics to gauge three things about nationwide economics:

- Overall economic health of the U.S.
- Necessary adjustments in U.S. dollar values moving forward
- Price changes to various economic series’ as inflation-free currency

The CPI in general is an effective metric for estimating Cost of Living due to the breadth of what it covers. The CPI-U, or Consumer Price Index for All Urban Consumers, covers all American consumers in urban or metropolitan areas, which make up 87% of the total U.S. population; this includes the poor, the wealthy, the unemployed, the self-employed and the retired.

What is the CPI-W? (continued)

The CPI-W measures spending for households included in the CPI-U that also bring at least half of their income from clerical/wage occupations, and have had one earner employed for at least 37 weeks of the past 12 months. Under these specifications, the CPI-W includes roughly 37% of the U.S. population.

Purchases included in CPI metrics can be broken down into several main groups:

- Housing
- Clothing
- Food/beverage
- Recreational goods
- Communication services
- Transportation
- Luxury items
- Some utilities (including water)

Consumer purchases excluded from CPI metrics include things like investments, real estate and life insurance. These purchases are considered savings and not an everyday expense, and thus not measured by the Bureau of Labor Statistics.

The Bureau measures consumer expenses over a 24-month period, over 8,000 item area indices, to generate a reliable CPI-W. Once this figure is determined, Social Security benefits are adjusted to ensure beneficiaries still and always will have purchasing power as the economy changes with time.

How COLAs are Applied

Broadly, the annual COLA raises a Social Security recipient's benefits according to nationwide economic activity. COLA figures are multiplied by current benefits (for example, 2014's COLA increase of 1.7 percent was added to recipients' benefit rates at the time - a 1.7% increase in total benefits).

During implementation, Cost of Living Adjustments, based on the previous two years' consumer activity (the CPI-W), raise a Social Security beneficiaries primary insurance amount, or PIA. The SSA defines PIA as "the benefit (before rounding down to next lower whole dollar) a person would receive if he/she elects to begin receiving retirement benefits at his/her normal retirement age."

When COLA figures increase due to inflation or changing dollar value, PIAs are increased, as well as benefit rates for SSI.

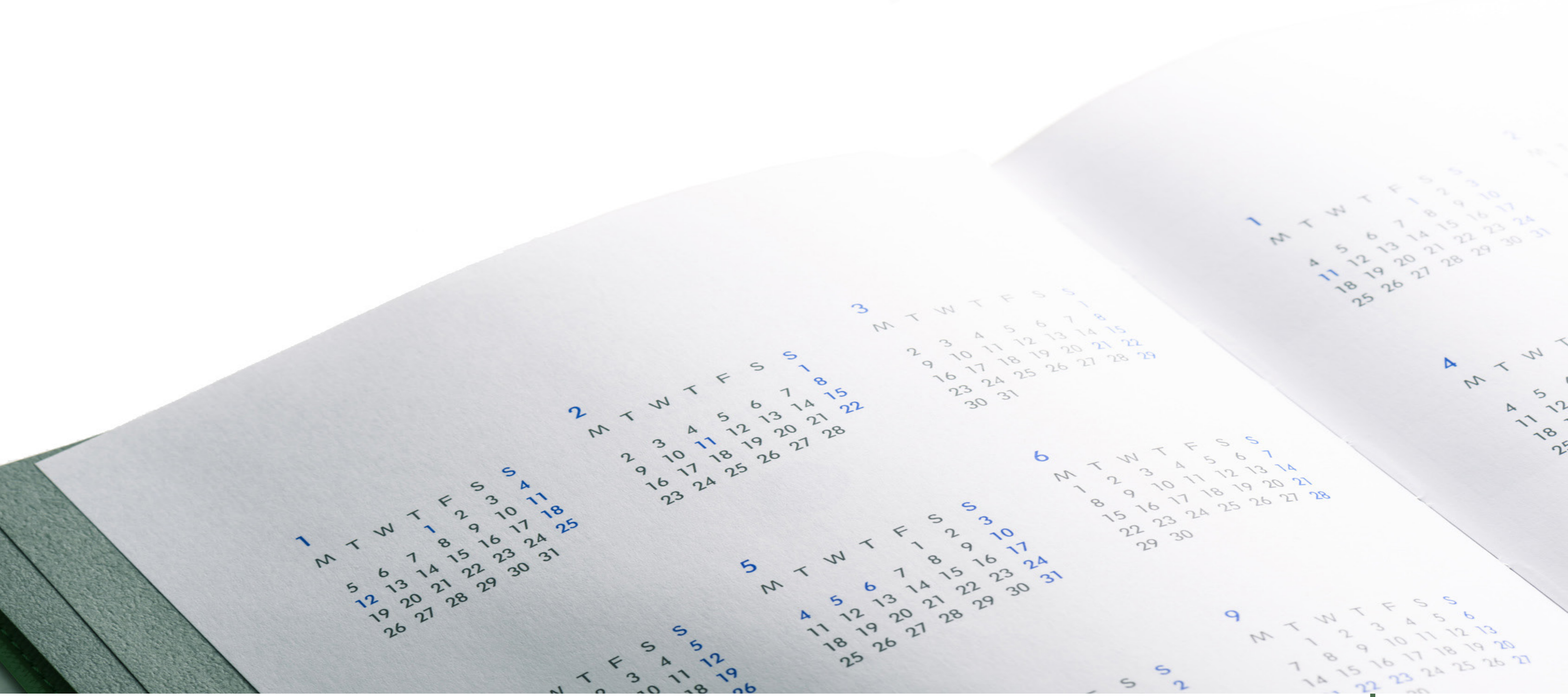
Social Security recipients who retire at the standard age will then receive benefits equal to their PIA amount, while those who retire early will receive benefits less than their PIA. This is because early retirees still have PIAs calculated for their normal retirement age; their benefit is then reduced from the PIA to reflect their early retirement, and they receive COLAs as well.

How COLAs are Applied (continued)

In simple terms, the annual Cost of Living Adjustment does not change Social Security benefit rates, but rather the primary insurance amounts that benefits are based on. Benefit reductions, such as Medicare premiums, are then applied, and resulting amounts are adjusted to the next lower dollar. This final amount is a recipient's new benefit rate, adjusted to preserve buying power and to reflect the general cost of living in the new year.

The formula the SSA uses to determine actual COLA percentages is quite simple. The Administration takes third-quarter (July, August and September) CPI-W figures and finds the average, and then compares the average CPI-W year over year. The percentage increase (if there is one) is then reflected in that year's COLA.

SSI adjustments based on annual COLA figures are implemented the month after general Social Security benefits increase; this typically occurs in January, as COLA-adjusted Social Security rates take effect in December, but are first payable in January.



How Past COLAs have Affected Social Security Benefits

There's no golden rule for how great or little a COLA will affect Social Security benefit payments. The only determining factor is economic inflation and the Bureau of Labor Statistics' findings on CPI-W (and by extent, CPI-U).

The table shown lists annual Cost of Living Adjustments for every year since 1975, when the first COLA was implemented.

Social Security and the COLA (1975-2015)

1975	8.0%	1989	4.7%	2003	2.1%
1976	6.4%	1990	5.4%	2004	2.7%
1977	5.9%	1991	3.7%	2005	4.1%
1978	6.5%	1992	3.0%	2006	3.3%
1979	9.9%	1993	2.6%	2007	2.3%
1980	14.3%	1994	2.8%	2008	5.8%
1981	11.2%	1995	2.6%	2009	0.0%
1982	7.4%	1996	2.9%	2010	0.0%
1983	3.5%	1997	2.1%	2011	3.6%
1984	3.5%	1998	1.3%	2012	1.7%
1985	3.1%	1999	2.5%	2013	1.5%
1986	1.3%	2000	3.5%	2014	1.7%
1987	4.2%	2001	2.6%	2015	0.0%
1988	4.0%	2002	1.4%		

The following are several examples of SSI Cost of Living Adjustments over the years:

- **1974-1975:** the first COLA increase of 8% increased individual SSI benefits to $157.70/month and couple benefits to $236.60/month
- **1979-1980:** the largest percentage increase at 14.3%, individual benefits rose from $208.20/month to $238/month, and couple benefits rose from $312.30/month to $357/month.
- **2008-2010:** no COLA was required, keeping individual and couple benefits at the time ($674 and $1,011, respectively) stagnant for two years.
- **2014-2015:** 1.7% COLA increase, resulting in individual benefits increasing from $721/month to $733/month, and $1,082/month to $1,100/month for eligible couples.

History of the COLA

Technically speaking, the first Cost of Living increase was distributed in 1950, not in 1975. While monthly Social Security benefit payments were first introduced in January 1940, it took until 1950 for any increases to take place.

Part of an effort to both aid existing beneficiaries and increase the value of the Social Security program, amendments signed in 1950 dramatically increased monthly benefit payments (77% increase) to make up for the previous decade; a decade in which the amount a person received their first month of benefits was expected to be the same throughout their lifetime.

Until 1972, Congress would make adjustments on special occasions to account for inflation and changing economic landscapes.

An ensuing increase passed in 1952 essentially doubled the original, pre-1950 benefit payment amounts for Social Security.

The first legislation requiring some form of annual and recurring Cost of Living Adjustment passed in 1972, resulting in the COLA rule as we know it today (for the most part). The first of many recurring COLAs was implemented in January 1975, three years after passing through legislature. This eliminated special intervention from Congress to address Cost of Living and automated the adjustment process outright.

The very way COLAs are determined have also changed over time. The first COLA, for instance, was measured by CPI-W increases from the second quarter of 1974 to the first of 1975 - too short a time span to truly gauge annual changes in the consumer pricing index. From 1976 to 1983, COLA increases were instead based on year over year CPI-W changes in the first quarter of every year.

Conclusion

There was once a time when Social Security benefits were one and done; the benefit rate you received first would be the same rate throughout your life. This approach to benefits was thankfully abandoned over time, along with impractical means of measuring annual COLAs.

Unfortunately, there's been no significant CPI-W increase between 2014 and 2015, and thus, there's not going to be a Cost of Living Adjustment for Social Security benefits, including SSI, in 2016.

We hope this guide has helped you understand how the SSA measures the Cost of Living every year and applies COLA increases to Social Security benefit payments, as well as provided some background on the legislation. If you'd like to learn more about your Social Security benefits and how they may be affected in the future by the annual COLA, don't hesitate to contact a trained and compassionate disability advocate today.

A note on Medicare and the "Hold-Harmless Rule:"

- Due to the 0% COLA increase for 2016, people that currently have their Part B Medicare Premiums withheld from Social Security will not receive smaller payments; they are held under the "Hold-Harmless Rule," and essentially held harmless from base premium increases due to the lack of a COLA.
- Others on Part B that still receive quarterly bills will not fall under the "Hold-Harmless Rule," and are subject to full Part B increases.

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