2020 Cost of Living Adjustments and Social Security Benefits

Forward

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

Every year, the Social Security administration uses nationwide data from the U.S. Bureau of Labor Statistics (BLS) 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 2020 has been announced, and in this guide, we explain what the COLA means for you and your Social Security benefits.

The 2020 Cola

Seniors and other Americans receiving Social Security benefits will receive a raise in their monthly checks this year, however, it won't be as substantial as it was in 2019.

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In 2020, the 63 million Social Security beneficiaries and 8 million Supplementary Security Income beneficiaries will get a 1.6% cost-of-living adjustment. This means the average retiree will receive about $24 more each month, or approximately $228 for the year (Note: some people receive both Social Security and SSI benefits).

In 2019, the COLA was greater, at 2.8%, an increase of about $40 a month for retirees. However, while it's natural to be disappointed that the COLA increase is not greater this year, it's important to remember that increases are tied to the rise in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the previous year. So, a higher COLA means that inflation was greater, and a lower COLA means inflation was less significant. In the end, it should balance out.

While the AARP says that the annual adjustment typically doesn't keep pace with the increased living expenses facing older Americans, including health care, prescription drugs, housing, food, and transportation, Andrew G. Biggs, resident scholar at the conservative American Enterprise Institute, states that "The COLA more or less accomplishes the goal of maintaining retirees' purchasing power amid inflation."

"Security tax will increase by about 3.6% to $137,700, from $132,900"

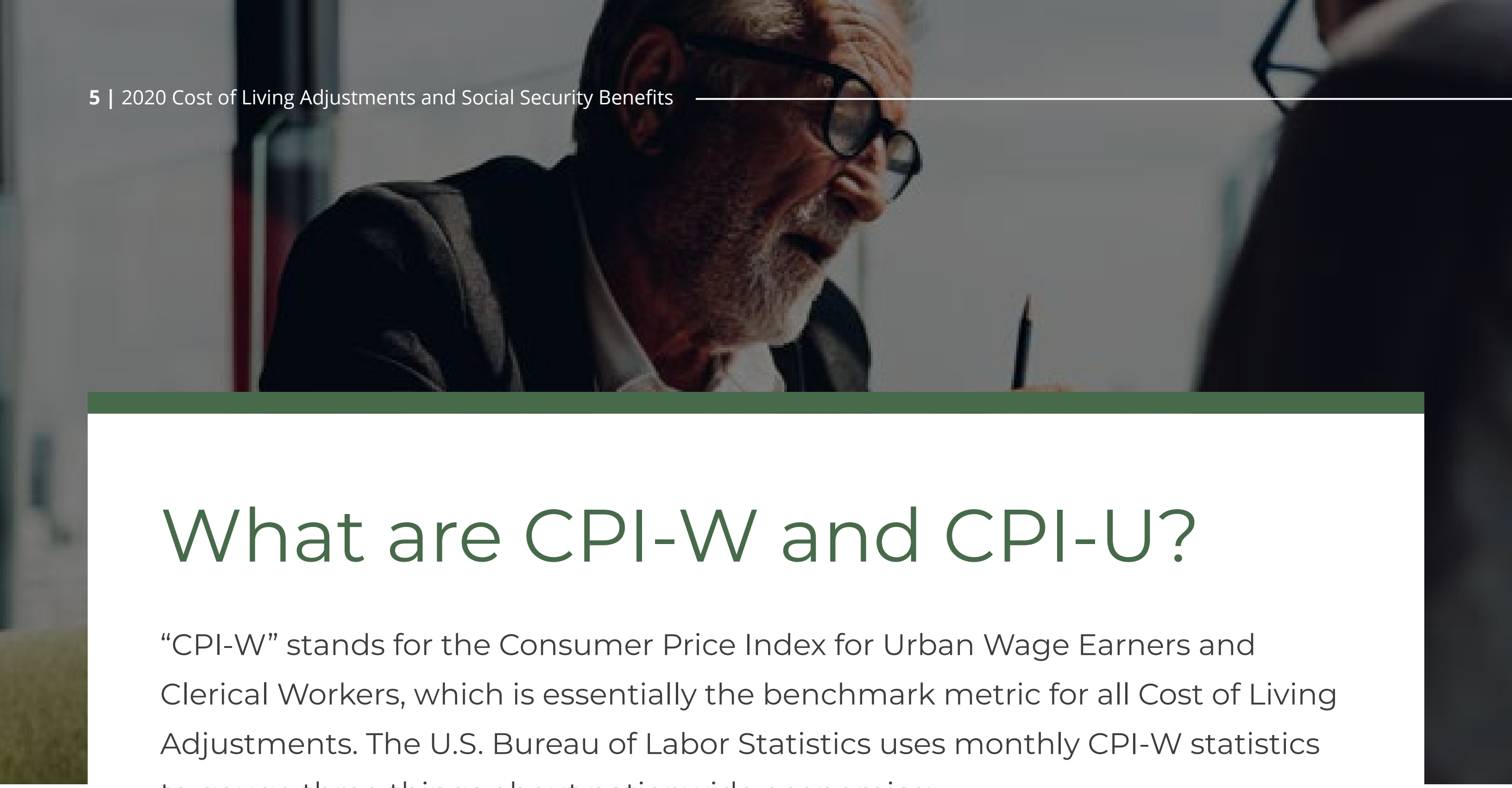
Based on that increase, the maximum amount of earnings subject to the Social Security tax will increase by about 3.6% to $137,700, from $132,900. Earners reaching that threshold will have to pay an additional $297 in taxes, as will their employers.

While Social Security and SSI beneficiaries normally receive COLA notifications by mail, people who receive Social Security payments can also view their COLA information online through their my Social Security account. People may create or access their my Social Security account online at www.socialsecurity.gov/myaccount.

How COLAs Are Calculated

The annual COLA is calculated by comparing year-over-year CPI-W figures, typically the average of the amounts from July, August, and September. Any noticeable change (as high as 11% and as low as 1.3%) will result in like adjustments to Social Security benefit payments.

If there is an increase, it must be rounded to the nearest tenth of 1%. If there is no increase, or if the rounded increase is zero, no COLA will apply for the year. 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 are CPI-W and CPI-U?

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

» The 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, while different from the cost of living index, measures inflation as experienced by consumers and serves as an effective metric for estimating the cost of living due to the breadth of what it covers.

The Consumer Price Index for All Urban Consumers, or “CPI-U,” covers all American consumers in urban or metropolitan areas, which make up 87% of the total U.S. population, including the poor, wealthy, unemployed, self- employed, and retired.

The CPI-W measures spending for households included in the CPI-U that 1) earn at least half of their income from clerical/wage occupations, and 2) have had one earner employed for at least 37 weeks of the past 12 months. Under these specifications, the CPI-W is estimated to represent approximately 28% of the total 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 types of purchases are considered savings and not an everyday expense, thus not measured by the U.S. Bureau of Labor Statistics.

The Bureau measures consumer expenses over a 24-month period, and 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 recipients benefits according to nation-wide 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 (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."

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.

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

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.

How COLAs Are Applied (Continued)

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 calculates the average, 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. Prior to 1983, the amounts were effective in July of the stated year. After that, the amounts became effective in January.

How Past COLAs Have Affected Social Security Benefits (Continued)

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: The 1.7% COLA increase resulted in individual benefits increasing from $721/month to $733/month, and $1,082/month to $1,100/ month for eligible couples.

» 2016-2018: The 2.3% COLA increase resulted in individual benefits increasing from $733/month to $750/month, and $1,100 to 1,125 for eligible couples.

Social Security and the COLA (1975 - 2020)

1975	8.0%	1981	11.2%	1987	4.2%	1993	2.6%	1999	2.5%	2005	4.1%	2011	3.6%	2017	2.0%
1976	6.4%	1982	7.4%	1988	4.0%	1994	2.8%	2000	3.5%	2006	3.3%	2012	1.7%	2018	2.0%
1977	5.9%	1983	3.5%	1989	4.7%	1995	2.6%	2001	2.6%	2007	2.3%	2013	1.5%	2019	2.8%
1978	6.5%	1984	3.5%	1990	5.4%	1996	2.9%	2002	1.4%	2008	5.8%	2014	1.7%	2020	1.6%
1979	9.9%	1985	3.1%	1991	3.7%	1997	2.1%	2003	2.1%	2009	0.0%	2015	0.0%		
1980	14.3%	1986	1.3%	1992	3.0%	1998	1.3%	2004	2.7%	2010	0.0%	2016	0.3%		

History of the COLA

The first Cost of Living increase was distributed in 1950. 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 (a 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.

An ensuing increase passed in 1952, essentially doubled the original, pre-1950 Social Security benefit payment amounts. 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 also have 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 CPI. From 1976 to 1983, COLA increases were instead based on year-over-year CPI-W changes in the first quarter of every year.

When you get right down to it, the purpose of a Cost of Living Adjustment is to ensure that the buying power of Social Security and SSI income do not become eroded by inflation over time.

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).

While 2016-2017 did not see a significant increase in CPI-W or COLA for Social Security Benefits, 2018 is looking a little brighter for all COLA recipients, including those receiving SSI, due to the 2% increase.

We hope this guide has helped you understand 1) how the SSA measures the cost of living every year and applies COLA increases to Social Security benefit payments, and 2) 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 one of our trained and compassionate disability advocates today.

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