

Financially Speaking

Social Security Recipients Are About to Receive a Raise

People receiving Social Security benefits are about to get quite a substantial boost in their monthly income.

The Social Security Administration recently announced that the annual Cost of Living Adjustment (COLA) that will be made for the upcoming year is 5.9%. That means that someone receiving \$1000 a month now will get a raise of \$59 a month, for a total monthly benefit of \$1059.

To put this increase in context, last year's COLA increase was 1.3%, and since 2009 there have been three years where benefits were unchanged (i.e. the COLA was 0.0%). This is technically the highest COLA increase since 1982, but interestingly it is almost the identical increase as what occurred in 2008, which coincides with the last time the United States saw a recession, when Social Security benefits were increased by 5.8%.

The amount of the annual COLA increase changes every year and since 1975 has been set by statute to match a broadly calculated measurement of inflation. Prior to that, increases to Social Security benefits had to be made through legislation – meaning that Congress had to agree on and pass each of them. Eventually Congress instead agreed to have the increases be automatic and tied to a measurement of inflation. Quite literally, the increases are meant to keep pace with the increasing costs of living.

If you read my column a few months ago you will recall that there are many ways to define inflation and the method used for determining the annual COLA adjustment has not escaped that debate.

The current measurement used for Social Security adjustments is the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). As you can probably guess from the specificity of that name, it is a somewhat narrowly defined measurement that many have argued should not be the one used for determining Social Security increases. Changing it would require another act by Congress however, and since there is no consensus on what to replace it with, I suspect it won't change soon.

The increase to Social Security benefits is technically effective for the December payments but, since Social Security payments are paid one month behind, that means that people will actually see their deposits increase in January. According to the Social Security Administration's annual press release, the average retiree's benefit will increase from \$1565 per month in 2021 to \$1657 per month in 2022, so the increase in spendable dollars for many will be sizeable.

I'm sure that this COLA increase will be welcomed by Social Security recipients, especially given that costs of many items have risen as the United States economy has rebounded from the Covid induced recession. A word of caution though. One year does not make a trend, so while this year's increase is significant, I wouldn't assume that next year's is going to be similar. Prices could continue to rise at a similar pace, or they could level off as pandemic related supply chain disruptions ease. If history is prologue, the 5.8% COLA increase that occurred in 2008 was followed by no increase at all in both 2009 and 2010.

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