

LC 14.2: 87-769 EPW

87-769 EPW



CRS REPORT FOR CONGRESS

SOCIAL SECURITY: THE COST-OF-LIVING ADJUSTMENT (COLA)
IN JANUARY 1988

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September 16, 1987

Revised October 23, 1987



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ABSTRACT

By law, social security benefits are adjusted automatically for inflation in January of each year. A benefit increase of 4.2 percent payable in January 1988 was triggered by the rise in the Consumer Price Index from the third quarter of 1986 to the third quarter of 1987. The increase also affects other programs, such as Supplemental Security Income and veterans' pensions. This paper provides brief background information on the upcoming COLA.

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SOCIAL SECURITY: THE COST-OF-LIVING ADJUSTMENT (COLA)
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INTRODUCTION

Social security benefits are raised periodically to keep benefit levels up with inflation. Usually this cost-of-living adjustment (COLA) is made automatically, i.e. without an act of Congress, in January of each year. This COLA, in turn, triggers increases in Supplemental Security Income (SSI), veterans' pensions, and railroad retirement benefits, and other changes in the Social Security and Medicare programs. A COLA of 4.2 percent payable in January 1988 was triggered by the rise in the Consumer Price Index (CPI) from the third quarter of 1986 to the third quarter of 1987.

HOW THE SOCIAL SECURITY COLA IS DETERMINED

An automatic social security benefit increase reflects the rise in the cost of living over roughly a one-year period. The Consumer Price Index for Wage Earners and Salaried Workers (CPI-W), updated monthly by the Bureau of Labor Statistics (BLS), is the measure used to compute the change. The average CPI-W for the third calendar quarter of one year is compared to the average CPI-W for the third calendar quarter of the next, and the resulting percentage increase (assuming there is one) represents the COLA that will become effective for the following December. The increase actually becomes payable in the following January's social security checks (social security checks always reflect the benefits due for the preceding month).

THE UPCOMING COLA IN JANUARY 1988

The upcoming 4.2 percent COLA for January 1988 became known on October 23, 1987, when the BLS announced the CPI-W figure for September 1987. With release of the September index the two July-September sets of CPI-W figures needed to compute the COLA--one for 1986 and another for 1987--became available.

The following shows how the January 1988 COLA is computed under procedures set forth in the law. 1/

Month	CPI-W	
	1986	1987
July	322.9	335.6
August	323.4	337.4
September	324.9	339.1
3-month average	323.7	337.4

Source: Based on press reports of the Bureau of Labor Statistics' announcement of the CPI-W for September 1987.

Increase from 1986 to 1987 in third quarter
average CPI = 4.23 percent

COLA: 4.2 percent (by law, the change must be rounded to the
nearest tenth of a percent)

1/ Under section 215 (i) of the Social Security Act.

WHAT ELSE IS AFFECTED BESIDES SOCIAL SECURITY BENEFITS?

Social security COLAs trigger increases in SSI benefits, veterans' pension benefits, and railroad retirement "tier 1" benefits. The amount of these increases is identical to the social security increase. Railroad retirement "tier 2" COLAs are equal to 32.5 percent of "tier 1" COLAs. Although COLAs under the Federal civil service retirement and disability programs are not triggered by the social security COLA, the same measuring period is used. Therefore, civil service retirement and disability recipients also will be getting a 4.2 percent COLA in January.

Similarly, while the social security COLA technically does not trigger an increase in the Supplementary Medical Insurance (SMI) premium (Part B of Medicare), the premium cannot rise unless there is a COLA in January 1988, and the dollar amount of the premium increase cannot exceed the dollar amount of the increase in social security benefits (i.e., for people who actually received benefits in the preceding month). 2/

The COLA also triggers other changes in the social security program itself:

1. The social security taxable earnings base rises, i.e., the maximum amount of earnings subject to the social security tax each year (currently \$43,800), although not by the change in the CPI, but rather by another index that measures changes in earnings levels in the economy; and
2. The exempt amount of the social security retirement earnings test rises (the exempt amount is the most a social security recipient can earn from work in any year without losing some or all of his or her benefits), again, by an index that measures changes in earnings levels.

2/ It was recently announced that the SMI premium will rise from \$17.90 a month in 1987 to \$24.80 beginning in January 1988. With a COLA of 4.2 percent, social security recipients with monthly benefits under \$164 (approximately) would not be required to pay the full SMI premium.

 SOCIAL SECURITY BENEFIT INCREASES IN THE PAST

Date increase paid	Amount of increase
January 1987	1.3%
January 1986	3.1
January 1985	3.5
January 1984	3.5
July 1982	7.4
July 1981	11.2
July 1980	14.3
July 1979	9.9
July 1978	6.5
July 1977	5.9
July 1976	6.4
July 1975*	8.0
April/July 1974	11.0
October 1972	20.0
February 1971	10.0
February 1970	15.0
March 1968	13.0
February 1965	7.0
February 1959	7.0
October 1954	13.0
October 1952	12.5
October 1950	77.0

* Automatic COLAs began.

Source: Social Security Administration.
