



May 24, 2024

# A Hypothetical Social Security Cost-of-Living Adjustment Based on the Research Consumer Price Index for the Elderly

## Background

The Social Security Administration (SSA) administers Social Security, a social insurance program that protects an insured worker and his or her eligible family members against a loss of income due to the worker’s retirement, disability, or death. People of all ages receive benefits from the program, with over 67 million beneficiaries in February 2024. Monthly Social Security payments for beneficiaries are subject to an annual cost-of-living adjustment (COLA) to account for rising prices (inflation).

The COLA is calculated automatically each year and is intended to reflect the change in the cost of living over a one-year period. Automatic Social Security COLAs became effective in 1975 after being established in 1972 as part of P.L. 92-336. The legislation referred only to the Consumer Price Index (CPI), which at the time was the only version of consumer price index produced by the Department of Labor’s Bureau of Labor Statistics (BLS) and pertained to urban wage earners and clerical workers. In 1978, BLS revised the CPI, which was renamed as the CPI for Urban Wage Earners and Clerical Workers (CPI-W), and introduced the CPI for All Urban Consumers (CPI-U). Although the CPI-U was used to escalate tax brackets beginning in 1985, most federal programs continued to use the CPI-W for indexing. Currently, the CPI-W covers approximately 30 percent of the population—urban wage earners and clerical workers—that by definition is employed, unlike most Social Security beneficiaries.

## Current Law Social Security Calculation

Under current law, the Social Security COLA equals the percentage increase in the average CPI-W from the third quarter of the base year (the last year for which a COLA was applied) to the third quarter of the current year. BLS generally releases the September CPI-W by mid-October, and SSA then computes and announces the COLA. The COLA becomes effective in December of the current year and is payable in January of the following year.

## A Consumer Price Index for the Elderly

In response to concerns about how effectively the CPI-W tracks the spending patterns of older consumers, in 1987 Congress directed BLS to introduce an index for the elderly (P.L. 110-175, §191). BLS developed an experimental consumer price index for Americans 62 years of age and older, commonly called the CPI-E and now designated as a research measure (R-CPI-E). BLS developed the R-CPI-E and constructed values for the series for 1982 and later.

## Caveats to Using R-CPI-E

BLS cautions that the R-CPI-E is experimental and has methodological limitations that may impact its accuracy in

reflecting the experiences of the elderly and that any conclusion from analyses should be treated as tentative. Because the R-CPI-E uses the same geographic areas, retail outlets, items selected for pricing, and prices as the CPI-U, the estimates from the R-CPI-E are likely to differ from a price index constructed specifically to measure the experience of Americans age 62 or older. Essentially, the R-CPI-E assumes that Americans 62 or older live and shop in the same places, buy the same things, and pay the same prices as other urban consumers reflected in the CPI-U, though in different quantities.

The underlying population used to calculate the R-CPI-E differs from the population of Social Security beneficiaries. Many Social Security beneficiaries are under the age of 62, such as surviving children and most disabled workers. Additionally, not all people over 62 are Social Security beneficiaries, including the substantial portion of persons age 62 or older who have not yet claimed benefits.

## Alternative COLA Using R-CPI-E

Table 1 provides the calculation of the Social Security COLA using both the CPI-W and the R-CPI-E. The December 2023 COLA using the R-CPI-E (4.0%) would have been 0.8 percentage points higher than the COLA using the CPI-W (3.2%).

Table 1. Determination of Alternative Social Security Cost-of Living Adjustment (COLA), December 2023

	CPI-W Index Points	R-CPI-E Index Points
July 2022	292.219	320.337
August 2022	291.629	320.720
September 2022	291.854	321.745
Average for 2022 Q3:	291.901	320.934
July 2023	299.899	332.545
August 2023	301.551	334.032
September 2023	302.257	335.069
Average for 2023 Q3:	301.236	333.882
% change between Q3 averages	3.20%	4.00%
Social Security COLA	3.20%	4.00%

Source: CRS calculations using Department of Labor (DOL), Bureau of Labor Statistics (BLS) data series for the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for 2022 and

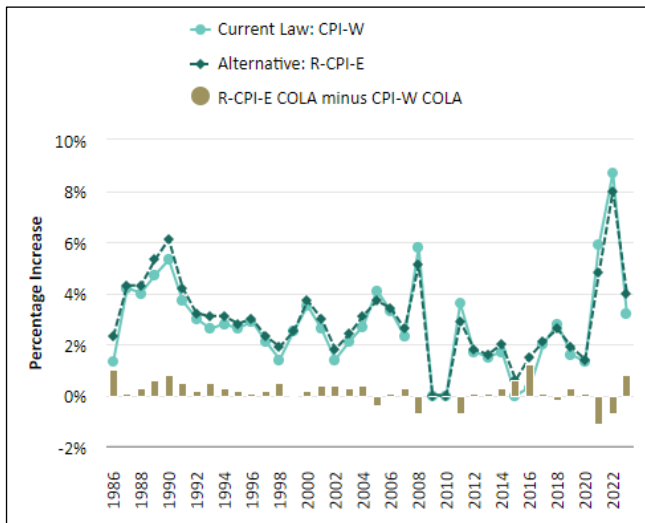
2023, <https://www.bls.gov/cpi/data.htm>; and DOL, BLS data series for the Consumer Price Index for Americans 62 years of age and older (R-CPI-E) for 2022 and 2023, <https://www.bls.gov/cpi/research-series/r-cpi-e-home.htm>.

**Notes:** The 2023 COLA applies to benefits payable beginning in January 2024. The reference base period for the CPI-W is 1982-1984 (i.e., the period when the index equaled 100). The reference base for the R-CPI-E is December 1982. Averages are rounded to the nearest one-thousandth of a point. COLA is rounded to the nearest 0.1% or zero if negative.

Historically, the R-CPI-E has grown faster than the CPI-W has because a larger portion of spending by the elderly goes toward health care expenditures and other items that are weighted more heavily in the R-CPI-E and whose prices tended to rise more rapidly. As a result, switching to the R-CPI-E is generally projected to result in larger COLAs and higher Social Security benefits. A hypothetical COLA based on the R-CPI-E would have equaled or exceeded the current law COLA in all but six years since 1986 (2005, 2008, 2011, 2018, 2021, and 2022) as seen in **Figure 1**. Over the period from January 1985 to January 2024, the CPI-W increased about 188% and the R-CPI-E by 211%.

**Figure 1. Current Law Social Security COLA (CPI-W), Hypothetical Alternative COLA (R-CPI-E), and Difference, 1986-2023**

Figure is interactive in the HTML version of this In Focus



**Source:** Social Security Administration (SSA), “Cost-Of-Living Adjustments” and CRS calculations using Department of Labor

(DOL), Bureau of Labor Statistics (BLS) data series for the research Consumer Price Index for Americans 62 (R-CPI-E).

**Notes:** The COLA for a given year applies to benefits payable beginning in January of the following year (e.g., the 2023 COLA applies to benefits payable beginning in January 2024). COLA is rounded to the nearest 0.1% or zero if negative.

## January 2024 Benefits Under an Alternative R-CPI-E COLA

Social Security estimated that the average monthly Social Security benefit payable to all retired workers in January 2024 was \$1,848 before the 3.2% current-law COLA and \$1,907 after the 3.2% current-law COLA. Applying the 4.0% hypothetical COLA based on the R-CPI-E instead would result in a \$1,922 average retired worker benefit.

## Examples of Legislation (118<sup>th</sup> Congress)

Several proposals in the current Congress would replace the CPI-W in the current COLA formula with the R-CPI-E or require BLS to construct a formal CPI-E index. These include H.R. 716, H.R. 1046, H.R. 1688, H.R. 3261, H.R. 4583, H.R. 8044, S. 393, S. 2280, and S. 3974.

## Resources

CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*

CRS Report R43363, *Alternative Inflation Measures for the Social Security Cost-of-Living Adjustment (COLA)*

Social Security Fact Sheet: 2024 Social Security Changes, <https://www.ssa.gov/news/press/factsheets/colafacts2024.pdf>

U.S. Bureau of Labor Statistics Factsheet: “The Consumer Price Index—Why the Published Averages Don’t Always Match an Individual’s Inflation Experience”

Kenneth J. Stewart, “The Experimental Consumer Price Index for Elderly Americans (CPI-E): 1982-2007,” *Monthly Labor Review*, April 2008, pp. 19-24

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IF12675

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