

## Social Security's cost-of-living increase will be far smaller next year, estimates show

Next year's Social Security cost-of-living adjustment (COLA) will likely be less than half of the increase seniors enjoyed in 2023, according to new estimates, as inflation continues to cool this year.

The Senior Citizens League predicts Social Security benefits will increase 3.1% for 2024, based on current inflation numbers, while Moody's Analytics puts the increase at 3.2%.

Both estimates are far smaller than the 8.7% boost the federal government delivered this year, which was the biggest increase in benefits in four decades and raised the average retiree benefit by more than \$140 per month.

The smaller COLA, though, may not be enough for the more than 70 million retired senior citizens and disabled workers who are still struggling with rising prices, a persistent problem with how COLAs are measured.

"Our current method of adjusting Social Security benefits tends to only do a mediocre job on that because the index that's used to adjust benefits doesn't track the spending patterns of retired adults over the age of 62," Mary Johnson, Social Security and Medicare policy analyst at The Senior Citizens League, a nonpartisan group, told Yahoo Finance.

"Instead, it surveys the spending of younger working adults, who have different patterns of spending."

### 'Still early'

The lower estimate reflects the news that consumer prices in April showed that while inflation pressures remain high in the US economy, the headline prices rose at the slowest annual rate since the period ending April 2021.

According to the latest data from the Bureau of Labor Statistics released the Consumer Price Index (CPI) revealed headline inflation rose 0.4% over last month and 4.9% over the prior year in April. Prices in March rose 0.1% on a monthly basis and 5% from the prior year.

The actual COLA is calculated by averaging together the CPI-W consumer price index for the third quarter of the year – July, August, and September of 2023 – and then comparing that figure with the same data last year. The Social Security Administration is expected to announce the COLA in mid-October after the release of the September consumer price index data.

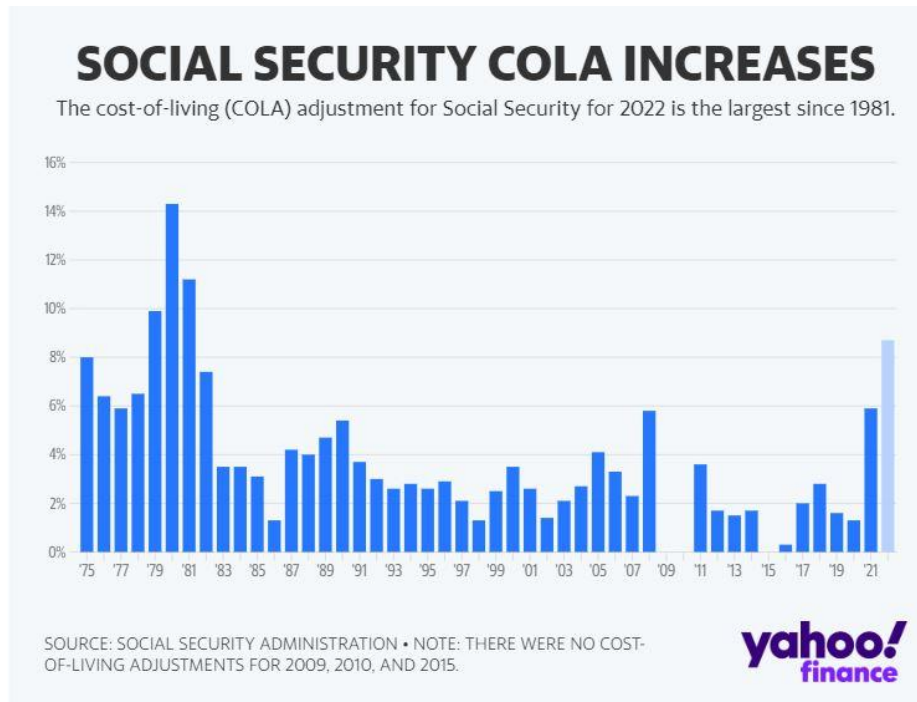
Until then, this is still crystal ball time.

"This estimate is still early and will undoubtedly change several times before the COLA is announced in October," Johnson said.

"While I use methodology that I've worked out over the past two decades to estimate the COLA, the 3.1% estimate is in line with what the Social Security Trustees are forecasting for 2023 in their most recent annual report which ranged from 3.1% to 4%."

"Those estimates seem plausible—we're already up more than 2% and still have five months of inflation left," Marc Goldwein, senior vice president and senior policy director at the nonprofit Committee for a

Responsible Federal Budget, told Yahoo Finance. "The bottom line: Social Security beneficiaries will continue to enjoy inflation protection."



But that protection may not be enough

More than half (53%) of seniors say they're worried the COLA for next year will fall short of inflation because their monthly household budgets have already increased by \$185, or more than the extra \$140 per month this year's 8.7% COLA bump provided, Johnson said. The group's survey of 1,815 seniors was conducted between January 2023 and May 5, 2023.

Other research in April by The Senior Citizens League also found that average benefits fell short of inflation by about \$1,054 from January 2021 to December of 2022. Average benefits in 2023 so far have only recouped about \$179.40 of that total since the start of the year.

Part of the problem is the index used to calculate COLA doesn't necessarily reflect the typical spending that retirees do.

"For example, the CPI-W, which is used to calculate the COLA, assumes that consumers spend only 7% of their incomes on healthcare costs," Johnson said. "Our Senior Survey found that two-thirds of survey participants spend up to 29% of their incomes on health care costs."

Since 2000, The Senior Citizens League has created its own Social Security buying power index that tracks the price of 38 goods and services typically used by retirees over the same period. To match the buying power that Social Security's monthly benefits provided for beneficiaries in 2000, retirees would now need an extra \$516.70 per month (\$6,200 in 2023), the group found.

“There was an expected mild improvement, but the overall loss is still the highest since we’ve been keeping records — exceeded only by the 40% loss in 2022,” Johnson said.

Between January 2000 and February 2023, Social Security COLAs increased benefits an average of 3.4% annually. But the cost of goods and services purchased by typical retirees rose nearly double that amount (about 6.2%) annually over the same period.

“For every \$100 a retired household spent on groceries in 2000, that household can only buy about \$64 worth today,” Johnson said.

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