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Social Security official: Benefits likely to rise 8% due to high inflation

BY AIMEE PICCHI

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An official with the Social Security Administration said seniors and others who rely on the benefits program are likely to receive a cost-of-living adjustment "closer to 8%" at the end of 2022 due to the current rate of inflation, which is the highest in four decades.

That increase would represent the biggest-cost-of-living adjustment, or COLA, since 1981. The average monthly Social Security check is about \$1,658, which means beneficiaries could see an increase of \$132.64 per month in early 2023, bringing the average check to about \$1,790.

The agency's COLA takes effect in December, with the updated benefits paid out beginning in January 2023.

The 69 million Americans who collect Social Security got a 5.9% COLA increase in January — the biggest jump since 1982. But inflation has raced far ahead of that number this year, hitting 8.3% in April and eroding many seniors' purchasing power.

"Looking at the CPI-W trends we're seeing so far this year, it's likely we'll have a COLA closer to 8% than to 3.8%," said Stephen Goss, the chief actuary of the Social Security Administration, in a June 2 webinar with the Bipartisan Policy Center on Social Security.

Goss' comments were made prior to the government's June 10 inflation report, which found that the Consumer Price Index accelerated across the U.S. in May, jumping to 8.6% — the steepest increase since 1981. Higher inflation was due mainly to increases in fuel, food and housing prices.

Given the latest inflation figures, it's likely that the next COLA bump could reach 8.6%, which is unchanged from a prior forecast in May, senior advocacy group the Senior Citizens League said on Friday.

Why to expect a big COLA

The CPI-W is the inflation index that the Social Security Administration uses to set its annual living adjustment. Goss' reference to a 3.8% COLA stems from the 2022 Trustees Report for the Social Security program, which was released on last week and predicted that the program would boost benefits by 3.8% at the end of 2022.

But that projection was made before inflation jumped to its highest level in four decades and Russia's invasion of Ukraine further boosted prices for fuel and food.

"The assumptions for the Trustees Report, especially the economic assumptions, were set in mid-February of this year, prior to certain things like a war on the other side of the ocean and the spiking inflation that we've seen very recently," Goss said.

A COLA of about 8% "is actually good news for the beneficiaries who are currently eligible for benefits — they will get a relatively high increase in their benefits," he added.

It would mark the highest COLA since 1981, when beneficiaries received a 11.2% bump, according to Social Security data.

October announcement

Some economists think inflation will ease later this year as the Federal Reserve continues to raise interest rates to dampen demand from consumers and businesses. For now, it remains red-hot. Inflation in May likely rose 8.2%, according to economists surveyed by FactSet. The Labor Department is set to release the latest inflation data on Friday.

The Social Security Administration bases its COLA adjustments on a basket of goods and services called the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The agency will make its official COLA announcement in October, basing that decision on the previous three months of inflation data — which means the number could change from Goss' forecast of 8%.

But there is a caveat about getting a big benefits increase: Much of the higher COLA could be eaten up via Medicare premium increases, which typically also rise each year.

For instance, the standard cost for Medicare's Part B jumped 14.5% to \$170.10 per month in early 2022, an increase of \$21.60, according to the Centers for Medicare and Medicaid Services. Many seniors saw a chunk of their 2022 COLA increase gobbled up by that higher cost.