Cost-of-Living Adjustments

Social Security and Supplemental Security Income (SSI) benefits are adjusted to reflect the increase, if any, in the cost of living as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) prepared by the Bureau of Labor Statistics (BLS). The purpose of the cost-of-living adjustment (COLA) is to ensure that the purchasing power of Social Security and SSI benefits is not eroded by inflation.

For purposes of determining the COLA, the average CPI-W for the third calendar quarter of the last year a COLA was determined is compared to the average CPI-W for the third calendar quarter of the current year. The resulting percentage increase, if any, represents the percentage that will be used to increase Social Security benefits beginning for December of the current year. SSI benefits increase by the same percentage the following month (January). If the increase in the CPI-W is at least one-tenth of one percent (0.1 percent), there will be a COLA. However, if the CPI-W increases by less than 0.05 percent, or if the CPI-W decreases, there will not be a COLA.

BLS determined there was no increase in the CPI-W from the third quarter of 2008, the last year a COLA was determined, to the third quarter of 2010. Therefore, under existing law, there can be no COLA in 2011.

History

Congress enacted the COLA provision as part of the 1972 Social Security Amendments. Prior to enactment, increases in Social Security benefits had to be enacted by Congress on an ad hoc basis. At that time, inflation was relatively high, so the provision enacted in 1972 provided for an automatic COLA only if the increase in the CPI-W was at least 3 percent, the so-called "3-percent trigger."

By the mid-1980s, as inflation began to wane, it became apparent that because of the 3-percent trigger, it could be possible that there would not be an annual COLA. In 1986, Congress enacted legislation to eliminate the 3-percent trigger.

Other Automatic Increases

There are a number of other automatic increases in the Social Security program. Two of these increases are based upon increases in the national average wage index, but are triggered only if there is a COLA for Social Security benefits. These increases are:

- The contribution and benefit base—the cap on the amount of wages and self-employment income subject to Social Security payroll tax; and
- Retirement earnings test exempt amounts—caps on the amount of earnings that a beneficiary can earn before a reduction in benefits will apply.

Since there is no COLA in 2011, the contribution and benefit base and the retirement earnings test exempt amounts will not increase.

Effect on Medicare Part B Premium

Unlike the Social Security COLA, the CPI-W plays no part in the computation of the Medicare Part B premium. The Medicare Part B premium increases each year, if necessary, so that the Part B premium is sufficient to fund approximately 25 percent of the projected cost of the Part B program. Any such premium increase is effective in January.

Information about Medicare changes for 2011 will be available at ***www.medicare.gov***. The Department of Health and Human Services has not yet announced if there will be any Medicare premium changes for 2011. Even if there is an increase in the Medicare Part B premium, the Social Security Act

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contains a "hold harmless" provision that will protect more than 70 percent of Social Security beneficiaries from paying a higher Part B premium, in order to avoid a reduction in their net Social Security benefit. Those not protected include higher income beneficiaries subject to an income-adjusted Part B premium and beneficiaries newly entitled to Part B in 2011. In addition, almost 20 percent of beneficiaries have their Medicare Part B premiums paid by state medical assistance programs and thus will see no change in their Social Security benefit. The state will be required to pay any Medicare Part B premium increase.[1]

Contacting Social Security

For more information and to find copies of our publications, visit our website at ***www.socialsecurity.gov*** or call toll-free, **1-800-772-1213** (for the deaf or hard of hearing, call our TTY number, **1-800-325-0778**). We treat all calls confidentially. We can answer specific questions from 7 a.m. until 7 p.m., Monday through Friday. We can provide information by automated phone service 24 hours a day.

We also want to make sure you receive accurate and courteous service. That is why we have a second Social Security representative monitor some telephone calls.

[1] Thus, in total, benefits for over 90 percent of Social Security beneficiaries would not be reduced if the Medicare premium increases – either because they are protected by the "hold harmless" provision or because their premium is paid by state medical assistance programs.

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