

# Cost-Of-Living Adjustments



**S**ocial Security and Supplemental Security Income (SSI) benefits are adjusted annually 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. The purpose of the annual cost-of-living adjustment (COLA) is to ensure that the purchasing power of Social Security and SSI benefits is not eroded by inflation.

As noted, the law provides that Social Security and SSI benefits will increase automatically to reflect the annual increase in the CPI-W. The average CPI-W for the third calendar quarter of the prior year is compared to the average CPI-W for the third calendar quarter of the current year, and the resulting percentage increase represents the percentage that will be used to adjust Social Security benefits beginning for December of the current year. SSI benefits are adjusted by the same percentage the following month (January).

## History

The COLA provision was enacted by Congress 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.

## Annual COLA

Under present law, there will be a COLA for Social Security and SSI benefits provided that there is an increase in the average of the CPI-W from the third calendar quarter of the prior year to the third calendar quarter of the

current year of at least one-tenth of one percent (0.1 percent). If the CPI-W increases by less than 0.05 percent, or if the CPI-W decreases, there will not be a COLA. If there is no COLA, Social Security and SSI benefits will remain the same.

Since there is no COLA in 2010, the starting point for the measuring period for the 2011 COLA will remain the third calendar quarter of 2008.

## 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 2010, the contribution and benefit base and the Retirement Earnings Test exempt amounts will not increase, even though average wages did 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 is increased 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 the same month that the Social Security COLA is payable.

The Social Security Act includes a provision that holds certain Social Security beneficiaries harmless for increases in the Medicare Part B premium. The “hold harmless” provision protects about 93 percent of Social Security

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beneficiaries from paying a higher Part B premium, in order to avoid reducing 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 2010.

## Contacting Social Security

For more information and to find copies of our publications, visit our website at [www.socialsecurity.gov](http://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. to 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.