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Social Security: The Cost-of-Living Adjustment in January 1995

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SUMMARY

To compensate for the effects of inflation, social security beneficiaries receive a cost-of-living adjustment (COLA) in January of each year. The Consumer Price Index for Wage Earners and Clerical Workers (CPI-W), updated monthly by the Bureau of Labor Statistics (BLS), is the measure used to compute the change. The average CPI-W for the third calendar quarter of 1 year is compared to the average CPI-W for the third calendar quarter of the next, and the resulting percentage increase represents the COLA that will become effective for the following December. The increase actually becomes payable in the following January's social security checks (social security checks always reflect the benefits due for the preceding month).

A COLA of 2.8 percent payable in January 1995 was triggered by the rise in the CPI-W from the third quarter of 1993 to the third quarter of 1994. This COLA, in turn, triggers identical percentage increases in Supplemental Security Income (SSI), veterans' pensions, and railroad retirement benefits, and causes other changes in the social security and medicare programs. Although COLAs under the Federal Civil Service Retirement System (CSRS) and the Federal military retirement program are not triggered by the social security COLA, these programs use the same measuring period and formula for computing their COLAs. Their beneficiaries also are to receive a 2.8 percent COLA, but not until April 1995 (a delay required by P.L.s 103-66, 103-335, and 103-337).

HOW THE SOCIAL SECURITY COLA IS DETERMINED

An automatic social security benefit increase reflects the rise in the cost of living over roughly a 1-year period. The CPI-W, updated monthly by the BLS, is the measure used to compute the change. The average CPI-W for the third calendar quarter of 1 year is compared to the average CPI-W for the third calendar quarter of the next, and the resulting percentage increase (assuming there is one) represents the COLA that will become effective for the following December. The increase actually becomes payable in the following January's social security checks (social security checks always reflect the benefits due for the preceding month).



system are not triggered by the social security COLA, these programs use the same measuring period and formula for computing their COLAs. Their recipients also will be getting a 2.8-percent COLA, but it is not payable until April.²

In addition, the law states that the Supplementary Medical Insurance (SMI) premium (Part B of medicare) cannot rise unless there is a social security COLA, and the percentage increase in the premium cannot exceed the percentage increase of the COLA. Since there is a COLA payable in January 1995, the premium is permitted to rise. However, the amount of the 1995 premium increase was determined by a provision of the Omnibus Budget Reconciliation Act of 1990, which raises the premium from \$41.10 a month in 1994 to \$46.10 a month in 1995 (the law also specifies premium levels for subsequent years). As in previous years, the hike in the premium cannot cause the dollar amount of the social security benefit checks to decline (i.e., for people who actually received benefits in the month before the COLA became effective).

The COLA also triggers other changes in social security:

Taxable earnings base: The social security (Old-Age, Survivors, and Disability Insurance--OASDI) taxable earnings base, i.e., the maximum amount of annual earnings subject to social security taxes, will rise to \$61,200, effective January 1, 1995 (up from \$60,600 in 1994). This amount was not determined from the change in the CPI, but rather from another index that measures changes in average earnings levels in the economy.

Exempt amounts under the social security earnings test: The exempt amount of the social security earnings test, i.e., the maximum amount a social security recipient can earn from work in any year without losing some or all of his or her benefits, will rise to \$8,160 in 1995 for people under age 65 (up from \$8,040 in 1994) and to \$11,280 for those age 65-69 (up from \$11,160 in 1994). These increases also were based on the rise in the index of average earnings in the economy.

Although not triggered by COLAs, the amount needed for a social security "quarter-of-coverage" will rise from \$620 in 1994 to \$630 in 1995. This too is based on the rise in the index of average earnings in the economy.

²For 1984 to 1993, CSRS and military retirement system COLAs were also payable in January of each year. Under P.L. 103-66, CSRS and military nondisability retirement system COLAs were payable in April 1994. They will continue to be payable in April in 1995 and 1996, and they will revert back to January in 1997. For retirees under the Federal Employees' Retirement System (FERS), the formula and resulting increases are different.

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**TABLE 2. Social Security Benefit Increases since
the Beginning of the Program**

Date increase paid	Amount of increase
January 1995	2.8%
January 1994	2.6
January 1993	3.0
January 1992	3.7
January 1991	5.4
January 1990	4.7
January 1989	4.0
January 1988	4.2
January 1987	1.3
January 1986	3.1
January 1985	3.5
January 1984	3.5
July 1982	7.4
July 1981	11.2
July 1980	14.3
July 1979	9.9
July 1978	6.5
July 1977	5.9
July 1976	6.4
July 1975*	8.0
April/July 1974**	11.0
October 1972	20.0
February 1971	10.0
February 1970	15.0
March 1968	13.0
February 1965	7.0
February 1959	7.0
October 1954	13.0
October 1952	12.5
October 1950	77.0

*Automatic COLAs began.

**Increase came in two steps.

Source: Social Security Administration.

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**TABLE 3. Social Security and Medicare Taxable Earnings
Bases since the Beginning of the Programs**

Year effective	Taxable earning base	
	OASDI	HI
1995	\$61,200	All earnings ^a
1994	60,600	All earnings
1993	57,600	\$135,000
1992	55,500	130,200
1991 ^b	53,400	125,000
1990	51,300	51,300
1989	48,000	48,000
1988	45,000	45,000
1987	43,800	43,800
1986	42,000	42,000
1985	39,600	39,600
1984	37,800	37,800
1983	35,700	35,700
1982	32,400	32,400
1981	29,700	29,700
1980	25,900	25,900
1979	22,900	22,900
1978	17,700	17,700
1977	16,500	16,500
1976	15,300	15,300
1975	14,100	14,100
1974	13,200	13,200
1973	10,800	10,800
1972	9,000	9,000
1968	7,800	7,800
1966 ^c	6,600	6,600
1959	4,800	---
1955	4,200	---
1951	3,600	---
1937	3,000	---

^aThe medicare Hospital Insurance (HI) taxable earnings base was eliminated by the Omnibus Budget Reconciliation Act of 1993.

^bThe maximum amount of earnings taxable for HI was raised from \$51,300 in 1990 to \$125,000 in 1991 as a revenue-raising measure in the Omnibus Budget Reconciliation Act of 1990. The OASDI portion went from \$51,300 to \$53,400 as a result of the automatic provision.

^c1966 was first year in which the HI tax was levied.

Source: Social Security Administration.

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TABLE 4. Impact of January 1995 COLA on Benefit Levels

	Before 2.8% COLA	After 2.8% COLA
Average social security benefits levels:		
All retired workers	\$ 679	\$ 698
Aged couple, both receiving benefits	1,146	1,178
Widowed mother and two children	1,328	1,365
Aged widow(er) alone	638	656
Disabled worker, spouse, and one or more children	1,088	1,118
All disabled workers	643	661
Supplemental Security Income Federal payment standard:		
Individual	446	458
Couple	669	687

Source: Social Security Administration, Oct. 14, 1994.

OTHER RELATED CRS PRODUCTS

U.S. Library of Congress. Congressional Research Service. *Payment schedule for military and civil service retiree cost-of-living adjustments, fys 1994-1999: a fact sheet.* CRS report for Congress no. 94-462 EPW, by Carolyn L. Merck. Washington, 1994.