

MORE ACCURATE COLAS FOR SENIORS

The Fair COLA for Seniors Act, H.R. 1553, would require the use of the Consumer Price Index for the Elderly (CPI-E), which calculates a price index for Americans age 62 and older, instead of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) that is currently used to determine annual cost-of-living adjustments (COLAs) for Social Security beneficiaries, federal annuitants, military retirees, and certain veterans' benefits. The Equal COLA Act, H.R. 1254, would equalize COLAs among different classes of federal retirees. NARFE supports both pieces of legislation.

The CPI-W Is Not an Accurate Measure of Inflation for Retirees

COLAs for federal civilian and military retirement annuities, as well as for Social Security benefits, veterans' benefits and disability benefits, are currently determined by the CPI-W, which is calculated by the Bureau of Labor Statistics (BLS) at the Department of Labor. The CPI-W is an index based on prices paid by all consumers for goods and services.

The current CPI-W calculation fails to account for seniors' spending habits, notably that of medical care. Seniors spend more on health care – nearly double the average spending of the general population. While health care accounts for about 12 percent of spending for those aged 62 and older, it accounts for only 8 percent of spending for the general population.¹ Meanwhile, health care costs have been rising faster than other goods. In the last 20 years, medical care prices have increased by 101 percent, while overall prices have increased by just 52 percent.²

When measuring costs experienced by Americans age 62 and older, as the BLS does when calculating the CPI-E, inflation is actually greater – by an estimated 0.27 percent per year – than what the CPI-W shows. Therefore, federal annuitants under both the Civil Service Retirement System (CSRS) and the Federal Employee Retirement System (FERS) system lose a significant amount of their purchasing power under the CPI-W.

The Fair COLA for Seniors Act Would Increase COLAs for Federal Programs

The Fair COLA for Seniors Act, H.R. 1553, would require the use of the CPI-E to determine more accurate COLAs for seniors and veterans. The CPI-E better accounts for the inflation of goods and services retirees most often purchase and for the spending habits of seniors, especially on medicine, health care, shelter, and other related costs.

Using the CPI-E to determine COLAs for federal annuitants and Social Security beneficiaries would increase COLAs by an estimated 0.27 percentage points per year.³

¹ Government Accountability Office, "RETIREMENT SECURITY: Alternate Price Indexes for Cost-of-Living Adjustments Present Tradeoffs," www.gao.gov/assets/700/696617.pdf, p. 13.

² These percentage increases reflect the change in the CPI-W index for medical care and the CPI-W index for all items, respectively, in the U.S. city average from December 1998 to December 2018.

³ This is based on the average annual difference in the COLA, from 1984 to 2018, that would have occurred using the CPI-E instead of the standard COLA measurement calculated using the CPI-W.

Because this difference would compound over the years, it would result in significant increases in COLAs over time. Federal retirees under CSRS, which does not provide Social Security benefits, often rely *solely* on their federal annuity as their source of income. Therefore, a switch to the CPI-E would have a particularly positive impact on their retirement benefits.

The Equal COLA Act

CSRS retirees and Social Security beneficiaries received a 2.8 percent COLA in 2019. FERS retirees only received a 2 percent COLA. Current law holds the FERS COLA at 2 percent if the full COLA falls between 2 and 3 percent, and it reduces FERS COLAs by one percentage point if the full COLA exceeds 3 percent. This inequitable policy, enacted in the 1980s with the creation of FERS, fails to fully protect the earned value of FERS annuities.

The Equal COLA Act, H.R. 1254, introduced by Rep. Gerry Connolly, D-VA, would correct this unfair policy and bring COLAs for FERS retirees in line with the full COLAs that CSRS retirees and Social Security beneficiaries currently receive. This bill, in conjunction with the Fair COLA for Seniors Act, would result in more judicious COLA calculations for FERS retirees and produce COLAs that truly reflect the spending of retirees.