

## ACCURATE COST-OF-LIVING ADJUSTMENTS

*NARFE supports accurate cost-of-living adjustments (COLAs) for federal retirees, including efforts to provide Federal Employee Retirement System (FERS) retirees with full COLAs in years where they are statutorily decreased. Reduced COLAs degrade the value of FERS annuities over time by failing to keep pace with the true cost of living. NARFE also opposes attempts to change the current index used to calculate COLAs to the Chained CPI, as it would result in smaller COLAs that fail to consider the true cost-of-living for federal retirees and our nation's seniors. To that end, NARFE will work with members of the 119th Congress to pass the Equal COLA Act, H.R. 491/S.624, and educate lawmakers on the inaccuracies of Chained CPI.*

### **The Equal COLA Act**

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. 491, introduced by the late Rep. Gerry Connolly, D-VA, and now taken over by Rep. James Walkinshaw, D-VA, and S. 624, introduced by Sen. Alex Padilla, D-CA, would correct this unfair policy and bring COLAs for FERS retirees in line with the full COLAs that Civil Service Retirement System (CSRS) retirees and Social Security beneficiaries currently receive. This bill would result in more judicious COLA calculations for FERS retirees, preventing an average FERS retiree from losing tens of thousands of dollars over their retirement<sup>1</sup> by calculating COLAs that truly reflect the spending of retirees.

Over the course of retirement, and based on historical inflation figures, an average FERS annuity (based on the latest available, fiscal year 2022 data) would lose an estimated:

- \$9,792 after 10 years;
- \$39,551 after 20 years;
- \$99,556 after 30 years; and, if fortunate enough to enjoy a long life,
- \$204,460 after 40 years.

### **The Chained CPI Cuts Earned, Promised Benefits**

Using the Chained CPI instead of the current CPI-W would reduce COLAs by an estimated 0.3 percent per year.<sup>2</sup> Because this difference would compound over time, it would have a more substantial impact toward the end of retirement. Federal retirees under the Civil Service Retirement System (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 Chained CPI would have a particularly acute impact on their retirement benefits. The median CSRS annuity (as of fiscal year 2022) is \$46,764 annually.

<sup>1</sup> Based on the calculated average difference in CSRS and FERS annuities post-annual COLA since 1988 and applied to the average FERS annuity.

<sup>2</sup> Based on consumer price index data published by the Bureau of Labor statistics at <https://www.bls.gov/cpi/data.htm>. Chained CPI estimated reduction based on available Chained CPI data since its 2002 inception.

By using the Chained CPI, someone earning that median CSRS annuity would lose, in total actual dollars, an estimated:

- \$9,433 after 10 years;
- \$45,274 after 20 years;
- \$126,710 after 30 years; and, if fortunate enough to enjoy a long life,
- \$283,893 after 40 years.

Federal employees covered by the Federal Employees Retirement System (FERS) would be hit twice by the switch, through their federal annuities and their Social Security benefits. Additionally, FERS retirees do not receive a full inflation adjustment if inflation is greater than 2 percent. With a median annuity of only \$17,424 per year, FERS retirees would lose an estimated:

- \$3,515 after 10 years;
- \$16,869 after 20 years;
- \$47,211 after 30 years; and, if lucky enough to enjoy a long life,
- \$105,777 after 40 years.

This only reflects the loss to a retiree's federal annuity and does not reflect losses to Social Security benefits.

### **NARFE's Opposition to the Chained CPI**

Proponents of the Chained CPI claim it provides a better measure of inflation by accounting for how consumers substitute one item when the price of another item increases; for example, by switching from steak to chicken when the price of steak rises. While this type of substitution may hold true for those still in the workforce, seniors often find this substitution impracticable, as they are already purchasing lower-priced goods as a result of living on a fixed income.

More importantly, the Chained CPI does not accurately reflect changes in consumer prices experienced by the seniors who rely on the measures to adjust their incomes appropriately. Notably, while health care accounts for about 13.5 percent of spending for those age 65 and older, it accounts for only 8 percent of spending for the general population, and it is that 8 percent that is measured by the Chained CPI.<sup>3</sup>

Using the chained CPI as an inflation measure would decrease benefits for low-income seniors and the disabled, including disabled veterans. Current seniors, especially those who are older than 65, may be hit the hardest by a switch to the chained CPI – they are likely to have fewer sources of income, are unable to return to work given their age, and have higher medical expenses. The average Social Security benefit is roughly \$24,000 annually, which is, by itself, a low income. For seniors that rely solely on their Social Security benefits, every dollar the chained CPI reduces their income may be a vital one.

---

<sup>3</sup> Age of reference person: Annual expenditure means, shares, standard errors, and coefficients of variation, Consumer Expenditure Surveys, 2021. Bureau of Labor Statistics. <https://www.bls.gov/cex/tables/calendar-year/mean-item-share-average-standarderror/reference-person-age-ranges-2021.pdf>