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Are Social Security Benefits Keeping Pace with the Rising Costs for Seniors

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One of the most asked about topics for any retirement planning professional is Social Security. It is one of the most important pieces of income for most retirees, and is often the least understood. As major overhauls to the program are kicked down the road, there have been several yearly updates that attempt to keep the program's benefits up to date with inflation and rising wages.

Let's start with the four main updates to the Social Security program for 2020:

- Current Social Security recipients will receive a 1.6% payout increase to their monthly benefit. This increase represents a cost-of-living adjustment (COLA) based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) which is the programs inflationary peg.
- The Social Security program will also increase the taxable earnings base from $132,900 to $137,700 in 2020. This amount is the maximum taxable earnings cap, which beyond that point people will no longer have Social Security payroll taxes deducted from their paychecks. The yearly amount is increased based upon the National Average Wage Index.
- While high income earners will now be paying more Social Security payroll tax, their maximum monthly payout at their full retirement age (FRA) will also be climbing by $150 to $3,011 in 2020. This equates to a yearly benefit increase of up to $1,800.
- Also updated in 2020, will be the amount early filers (before FRA) will be able to earn without having their benefits withheld. This year the retirement earnings test allows the Social Security Administration (SSA) to withhold $1 in benefits for every $2 earned above $18,240. The earning limit for the year in which you reach your FRA has also increased to $48,600, which will reduce your benefit $1 for every $3 above this threshold. After reaching your FRA there is no penalty for working and collecting benefits.

All of these yearly updates attempt to keep the program in line with the spending increases for its recipients, however a deeper dive into these adjustments can show how they often lag behind the actual cost increases most seniors face. Social Security's inflation adjustments for benefits are tied to the CPI-W, which is not the best inflation index to represent the overall cost increases most retirees face because that CPI-W does not include households that do not have anyone in the labor force, such as retirees.

Recently there has been major support to replace the CPI-W with the Consumer Price Index for the Elderly (CPI-E) which focuses on households with individuals who are ages 62 and up. The CPI-E more accurately reflects the amount of seniors' income that goes towards healthcare, housing, and other consumer goods.

Recent data from the Bureau of Labor Statistics has shown that bus fares, health insurance, home repairs, and men's outerwear are the areas of senior spending most affected by inflation. However, this was offset in part by some senior consumer prices that have experienced negative growth over the past year such as smart phones, TVs, Women's dresses, and computers.

While all of this does not sound ideal for seniors and retirees, keep in mind that the Social Security program was never intended to replace workers' preretirement income and fully fund their retirement. Social Security was enacted in 1935 following the Great Depression to act as a safety net for the elderly, unemployed, and disadvantaged Americans. A 1.6% COLA adjustment may not sound like much, but it is still above the average increase over the last decade and much better than in 2010, 2011, and 2016 when there was no COLA following deflationary years. There are also ways for seniors who are on Medicare to pay for the Part B premiums directly from their Social Security benefits, which not only eliminates the hassle of paying their premiums, but allows them to take advantage of Medicare's hold-harmless provision that essentially states any increase in the Part B premium cannot reduce the net amount of your monthly Social Security check.

While the Social Security program is not without its shortcomings, it is still a valuable resource to provide retirees, disabled, and young children with a modest floor of progressive income.