



## Q&A About the Social Security COLA

The Social Security Administration announces every October the cost-of-living adjustment (COLA) to benefits effective the following year. The COLA is intended to help Social Security beneficiaries deal with rising costs of life's essentials, like food, fuel, health care, and housing.

With 97% of older adults either receiving Social Security or planning to, the COLA announcement can trigger some client questions to financial advisors. Here are some suggestions for how to answer commonly asked questions:

### When will I see the extra dollars in my Social Security benefit?

If you're receiving Social Security, you'll see the adjustment in your check or direct deposit in January, when December benefits are paid. You should also receive a COLA notice from the Social Security Administration (SSA) in December, or you can find it later this year when you sign into your account at [ssa.gov](https://www.ssa.gov).

### How does Social Security calculate my new benefit starting in January?

Social Security applies the COLA to your primary insurance amount (PIA) – the amount that you are eligible to receive if you file (or filed) for benefits at your full (also called “normal”) retirement age.

That amount is adjusted, depending on the benefit you applied for – early (at age 62), at your full retirement age (FRA) or later, up to age 70. Visit [ssa.gov](https://www.ssa.gov) and sign in to see how Social Security calculates your benefit.



## How does Social Security determine the COLA?

The COLA is based on the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) between last year's third quarter and this year's third quarter. The U.S. Bureau of Labor Statistics announces monthly inflation index figures.

This is a topic of debate.

Some experts contend that the CPI-W index doesn't reflect the differences in the goods and services people over the traditional working age must pay for. Seniors, for example, tend to have higher healthcare costs.

There's another index, called the CPI-E (for Elderly), that measures the costs that are more typical of older people. Some legislation has proposed using CPI-E for Social Security benefits, but none of those bills have passed Congress.

Another article of debate is whether it's fair to apply one COLA nationally when living costs can vary widely by state and region.

But for now, it's the CPI-W that the COLA is based on.

## Is the COLA automatically added to my January benefit payment?

What you'll see in your Social Security check or bank account deposit depends on a few factors, such as if you have deductions for healthcare benefits, like Medicare Part B premiums, or income taxes withheld.

Speaking of income taxes, a COLA could push some beneficiaries into higher income tax brackets. If you're concerned about that, contact your accountant or tax advisor.



## How does this affect me if I'm not collecting Social Security yet?

Depending on your age, you may get some value later. Here's how:

When you file for Social Security benefits, the SSA calculates your primary insurance amount (PIA). That is the amount that you are, based on your earnings record, eligible for if you file for retirement benefits at your full (also called "normal") retirement age (P.S. that's no longer 65). You can look up *your* full retirement age at [ssa.gov](https://www.ssa.gov).

SSA will adjust that amount based on the *sum of COLA increases* between the time you turned 62 and the age you applied for benefits.

If you haven't filed yet, delayed retirement credits accumulated by filing after your full retirement age (up to age 70) on *top of COLAs* can significantly boost your monthly benefit amount. That's another argument for delaying filing until your benefits max out at 70 if you can afford to.

## Should a COLA change my plans for when I'll file for benefits?

The COLA alone is not a reason to file for benefits. Many factors go into a decision to file. And if you're married, you must make these decisions as a couple. When you file can affect how much your spouse can collect while you're alive and after your death.

I recommend consulting a financial or tax advisor with advanced software like [LifeYield Social Security+](#) and complete knowledge of your financial and tax situations and expectations for retirement. (Note: Social Security+ is updated every January to reflect earnings limits, COLAs and more changes.)

After all, Social Security replaces approximately 37% of what you earn while working, according to the nonpartisan Center for Budget and Policy Priorities (CBPP). To retire



with peace of mind, you'll want to be reasonably confident in where the other 60% will come from for the rest of your life.

## I'm on Social Security and thinking of working to help pay the bills. Will that affect my benefits?

It depends on how old you are and when you began collecting benefits.

You are free and clear if you are above your full retirement age for the entire year. There's no limit to how much you can earn and still collect Social Security. (Remember, though, that your earnings plus Social Security benefits could mean you will pay more taxes.)

It's different if you file for benefits before your full retirement age or in the year you reach it. Then, Social Security limits how much you can earn without withholding some of your benefits. This is called the "retirement earnings test." The SSA announces annual changes in earnings limits.

Even if you decide to take a job and forfeit some of your Social Security benefits, that's only limited to while you are working. Once you stop working or reach your full retirement age, Social Security will recalculate your benefits to include those you temporarily lost but over your projected lifetime (you don't get a lump sum).

## Do I see COLAs reflected in what I see when I view my account on ssa.gov?

No, your Social Security account on [my Social Security](#) shows estimated benefit amounts and projections in today's dollars. The SSA does not include COLA in your benefit calculations until you apply for benefits.



## Can I expect an adjustment every year?

Not at all. Whether there's a COLA or not, and what it will be, depends on that price index. There was no adjustment in 2009, 2010 and 2015, and in 2017 it was only 0.3%. Then, inflation roared back, and the COLA was 5.9% in 2022 and 8.7% in 2023, increases not seen in 40 years. For a historical perspective, visit [this page on ssa.gov](#).

## I heard that Social Security will soon be insolvent. Shouldn't I file as soon as I am eligible to ensure I get some benefits?

Social Security is indeed projected to be "insolvent" – paying more in benefits than collecting in taxes – by 2033, potentially triggering benefit cuts. It's wise to remember that [the program has faced uncertainty before](#) – only to be revived and bolstered by Congress.

Politicians understand that few programs are as popular with constituents as Social Security and Medicare. It would take relatively modest changes to put it on firmer ground, [according to the CBPP](#).