OCTOBER 14, 2021

HealthView Insights

2021 Social Security COLA Announcement

On Wednesday, the Social Security Administration (SSA) confirmed widespread projections that the 2021 cost-of-living adjustment (COLA) would rise to 5.9% - the highest increase that eligible retirees, dependents, and disabled persons have experienced since 1982. According to SSA, in 2022, the average retirement benefit will climb from 1,565 to $1,657 - an increase of almost $100 every month.

While this may be welcome news for many beneficiaries eager to see larger payments, the adjustment must be viewed in the proper context. This metric – based on year-over-year changes in the Consumer Price Index (CPI) – reflects inflation, and it comes as little surprise given the surge in cost of consumer goods over the past few months.

Takeaway 1: The large COLA is for one year only. Future benefit increases are expected to be much smaller.

The 5.9% increase is largely unprecedented and does not appear (at least based on current projections) to be the "new normal." In the latest Social Security Trustee Report, the program anticipates a 2.4% average annual COLA in the years ahead - less than half of what is expected in 2022; therefore, it is probably safe to assume that COLAs will revert to their traditional levels in the foreseeable future. While these projections are not legally binding, they include forecasted economic data and produce expectations far more consistent with the mean of prior COLAs.

Highlights

2021 COLA set to 5.9%, largest in decades

Impacts 2022 benefits (future years likely to be smaller)

Reaction to higher cost of living

Even high COLA won't keep up with healthcare expenses

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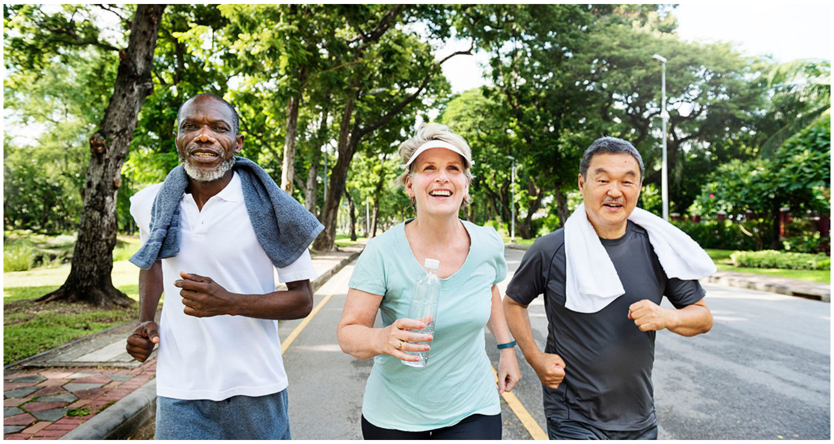

Takeaway 2: A higher "COLA" means a higher "COL"

Let's not forget what the first three letters of the COLA acronym represent: cost-of-living. As stated above, COLAs are solely based on changes to CPI, a metric used to track inflation on a "basket" of consumer goods (transportation, food, energy, etc.). Financial plans must consider the impact that pricier goods and services will have on all Americans – but especially retirees – who may be living on fixed incomes.

Takeaway 3: Even at their peak, COLAs can't offset rising medical expenses

While 5.9% may initially appear to be a substantial year-over-year increase in Social Security benefits (and it is), the figure is basically on par with retirement healthcare-cost inflation, as a healthy 65-year-old couple retiring in 2022 will see their medical expenses rise by approximately 6.0% in the same year.

Healthcare tends to inflate at double the level the CPI, so health-related goods and services may see an even higher increase in the coming years. Unfortunately, when COLAs return to their more traditional levels in the future (which is likely), retirees can expect to see more of their income consumed by healthcare costs.

One metric that HealthView Services uses to evaluate this trend is the Healthcare/Social Security Index: a simple – but telling – measurement tool. Dividing annual healthcare costs by Social Security benefits reveals how, over time, healthcare spending quickly outpaces Social Security income. The below shows an updated projection with this new Social Security data, for a healthy 65-year-old couple, living to age 90, five-year increments*.

Year	Age	Healthcare Spending	Social Security Income	HC/SS Index
2022	**65**	$11,585	$29,732	39%
2027	**70**	$15,740	$33,476	47%
2032	**75**	$21,133	$37,690	56%
2037	**80**	$28,157	$42,435	66%
2042	**85**	$37,949	$47,778	79%
2047	**90**	$49,733	$53,793	92%

We are certainly not trying to be a "wet blanket" on the latest COLA development, as almost $1,200 extra per year will certainly help millions of recipients. However, it is important to offer data-driven insights so that financial professionals and their clients can have meaningful conversations on retirement income and related expenses.

Of course, HealthView will update all of its retirement planning software, solutions, and educational content with the latest projection data.

*National average healthcare costs for Medicare Parts B & D premiums, supplemental insurance, and out-of-pocket spending on hospitalization, doctors, tests and prescriptions. No Medicare surcharges included. Average household retirement benefits from Social Security included. Assumes benefit filing occurs at age 65 years and 0 months.

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