# [Trying Again to Change Social Security’s COLA Formula](https://www.fedsmith.com/2019/03/08/trying-change-social-securitys-cola-formula/%22%20%5Co%20%22Permanent%20Link%20to%20Trying%20Again%20to%20Change%20Social%20Security%E2%80%99s%20COLA%20Formula%22%20%5Ct%20%22_blank)

[Ian Smith](https://www.fedsmith.com/author/ian-smith/) March 8, 2019

Legislation has been reintroduced in Congress to change the formula used to determine the cost of living adjustment (COLA) paid under Social Security.

The Fair COLA for Seniors Act ([H.R. 1553](https://www.govtrack.us/congress/bills/116/hr1553)) would change the Social Security COLA computation to be based on the Consumer Price Index for the Elderly (CPI-E). The bill’s sponsor, Congressman John Garamendi (D-CA), says that it is unfair to use the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), the index on which the COLA is currently based.

“Our seniors and disabled citizens rely on Social Security benefits for a large portion of their income, and it’s about time for Social Security benefits to reflect their lifestyles,” said Garamendi. “Using a COLA that actually reflects how retirees spend their money – especially in health care – is a no-brainer that will increase benefits and make Social Security work better for the people it serves.”

Using the CPI-E would likely increase COLAs paid out under Social Security which is the fairness to which Garamendi refers. The CPI-E only takes into account the spending habits of households with individuals 62 and older, an age group more likely to utilize Social Security. The premise is that this index better represents the spending habits of seniors because it takes into account spending in other areas, such as higher medical costs, that the CPI-W does not.

According to Garamendi, from 1982 to 2011, the CPI-E rose at an annual average rate of 3.1% vs. 2.9% for the CPI-W.

## What’s the Downside?

On the surface, it looks great. Seniors utilize Social Security, so just use a price index that increases their benefits by measuring cost inflation on services they are more likely to use. What could go wrong?

There are a couple of problems. [According to AARP](https://www.aarp.org/money/budgeting-saving/info-2005/dd132_cpie.html), the CPI-E does not represent all Social Security recipients, since some recipients are younger than age 62. It is also based on a much smaller sample than the CPI-U sample (derived from all consumers), and therefore has a higher sampling error.

FedSmith author [Mike Wald wrote about this](https://www.fedsmith.com/2017/03/01/congress-considering-change-in-calculating-retiree-benefit-increases/) when Garamendi’s bill was last introduced. He noted:

There would be a cost of several million dollars if the CPI-E was to be used to calculate changes in retiree benefits. The index sample would have to be expanded to make it statistically defensible, and BLS would also need to put greater resources into collecting information on senior discounts that may affect final pricing of goods and services.

FedSmith author Brenton Smith said that [there is no “right” price index to use](https://www.fedsmith.com/2017/03/02/cola-wars/) because of the fluid nature of inflation, so changing how it’s calculated just shifts the burden to different groups of people.

“The fact is that no right version of the COLA exists because inflation affects individuals differently,” wrote Smith about a past version of the bill. “For example, the person who owns his home does not feel the effects of changes in price of rent. Thus the COLA will be right for 1 and wrong for 99 with almost any measure of inflation.”

Perhaps the biggest problem though is the cost. More money from higher COLAs sounds great, but Social Security is already headed towards financial insolvency. According to the [latest Trustee’s report](https://www.ssa.gov/OACT/TRSUM/index.html), the funds that pay for Social Security are projected to be depleted in 2034. Paying out more in benefits stands to expedite this process.

## Past Legislation

There have been a number of efforts to switch to the CPI-E. Garamendi last [introduced it in 2017](https://www.fedsmith.com/2017/03/01/congress-considering-change-in-calculating-retiree-benefit-increases/), but it failed to advance.

Similar legislation was also introduced twice by Congressman Richard Nolan (D-MN), the [last of which was in 2017](https://www.govtrack.us/congress/bills/115/hr2896), but failed to advance each time.

Congressman Donald Norcross (D-NJ) made an attempt with a [bill in 2017](https://www.fedsmith.com/2017/10/18/seniors-security-act-takes-retirees-unknown-territory/).

Efforts to change to the CPI-E date back even further than these bills. FedSmith author [Ralph Smith wrote about the subject](https://www.fedsmith.com/2009/08/27/why-your-costs-may-be-up/) back in 2009 for example.

This past track record alone does not bode well for the prospects of the latest effort.