

How Big Will Social Security's COLA Be?

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MarketWatch Blog by Alicia H. Munnell



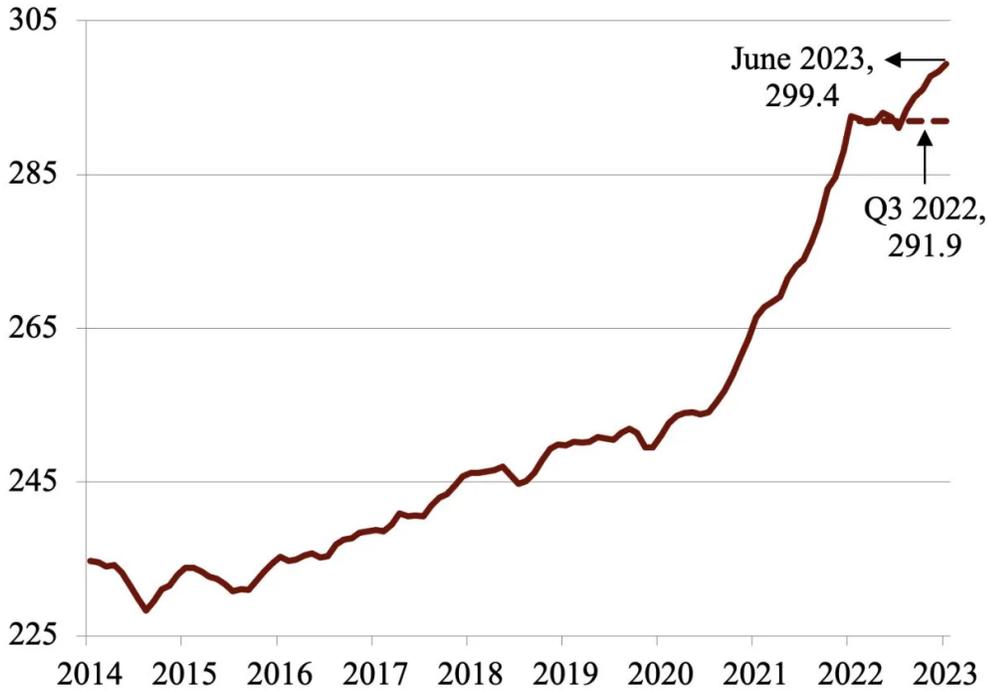
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Much lower than previous years, but COLA has fully protected retirees against ravages of inflation.

The speculation seems to start earlier every year. I just got my first press call regarding the likely magnitude of Social Security's cost-of-living adjustment (COLA) for 2024. This automatic indexing of benefits to keep up with rising prices – always a wonderful feature of our Social Security program – has been particularly valuable over the last few years as we have experienced high rates of inflation.

Since the COLA first affects benefits paid after January 1, Social Security needs to have figures available before the end of 2023. As a result, the adjustment for 2024 will be based on the increase in the CPI-W for the third quarter of 2023 over the third quarter of 2022. We know the 2022 number (see Figure 1), but we need data for July, August, and September to calculate the third quarter average for 2023. All we have so far is the June number.

Figure 1. *Consumer Price Index (CPI-W), June 2014-June 2023*



Source: U.S. Bureau of Labor Statistics. 2023. “Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).”

The only option is to make some assumptions. As a starting point, Table 1 shows what the COLA for 2024 would be if the CPI-W remained at its June level for the next three months – a very unlikely event. More reasonable options have the CPI-W increasing by an average of 0.2 percentage points, 0.4 percentage points, and 0.6 percentage points, respectively, in July, August, and September. This exercise suggests a 2024 COLA between 3.0 percent and 3.8 percent. For now, I’m going with 3.4 percent.

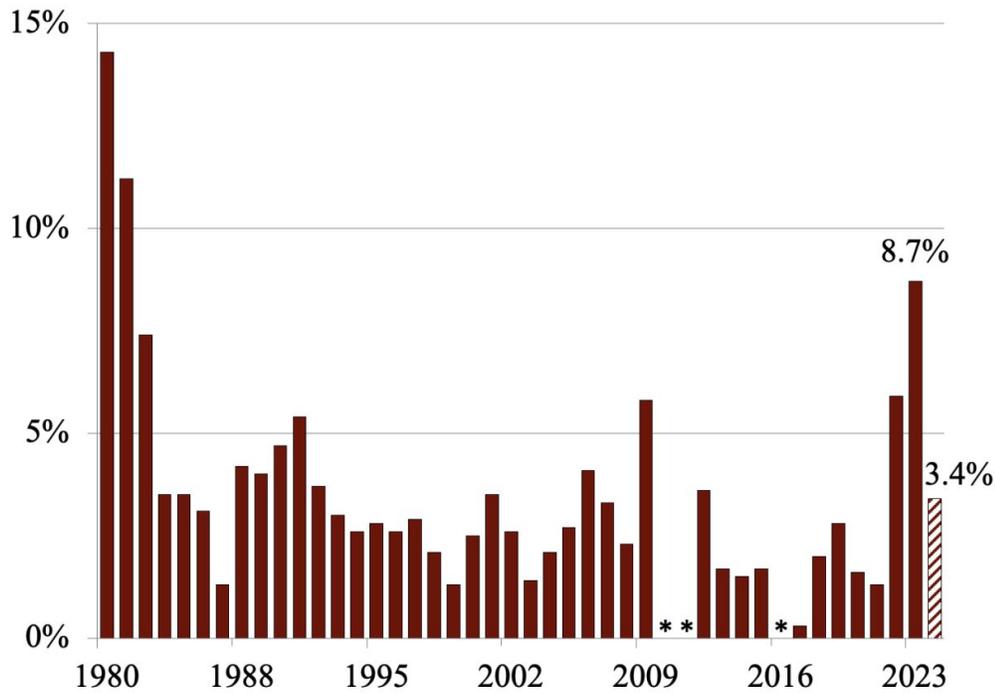
Table 1. *Estimates of Social Security COLA in January 2024 under Various Assumptions*

Quarter	Assumption	Level of CPI-W	Social Security COLA
3rd Quarter 2022	Actual	291.9	
3rd Quarter 2023	CPI-W remains at June level	299.4	2.6%
3rd Quarter 2023	CPI-W increases by 0.2 percent in July, Aug. and Sept.	300.6	3.0
3rd Quarter 2023	CPI-W increases by 0.4 percent in July, Aug., and Sept.	301.8	3.4
3rd Quarter 2023	CPI-W increases by 0.6 percent in July, Aug. and Sept.	303.0	3.8

Source: Author’s calculations using data from U.S. Bureau of Labor Statistics. 2023. “Consumer Price Index: Urban Wage Earners and Clerical Workers.”

The range of estimates is in line with the 3.3 percent COLA projected by the Social Security actuaries in the **2023 Trustees Report** and well below last year’s COLA of 8.7 percent (see Figure 2).

Figure 2. *Cost-of-Living Adjustment (COLA) for Social Security Benefits, 1980-2024*



Notes: Asterisks for 2010, 2011, and 2016 indicate no COLA. COLA value for 2024 is author's estimate.
Sources: Social Security Administration. 2023. Cost of Living Adjustments; and author's estimate.

My best guess is the 2024 COLA will be roughly in line with 2024 inflation. In contrast, the COLA over the last two years has been out of sync with actual inflation: too low a COLA in 2021 and too high a COLA in 2022 (see Table 2). This pattern is the inevitable result of a backward-looking calculation. But it makes perfect sense to base the COLA on actual data rather than a forecast, which could involve constant corrections for over- or under-predicting. And most importantly, over the whole inflation cycle, retirees have received the appropriate increase.

Table 2. *Social Security COLA and CPI-W Inflation, 2021 and 2022*

Year	Social Security COLA	CPI-W inflation
2021	5.9%	7.8%
2022	8.7	6.3
2021-2022	15.1	14.6

Note: Inflation is measured as the change in the CPI-W from December to December.

Sources: Author's calculations from U.S. Social Security Administration. 2023. "Cost of Living Adjustments"; and U.S. Bureau of Labor Statistics. 2023. "Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)."