

Intellectual Capital Blog

2019 Social Security COLA | **12 October 2018**

Chief Investment Office Americas, Wealth Management

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Social Security's cost of living adjustment (COLA) for 2019 is 2.8%. While it's the largest increase since 2012 a [recent study](#) found that the purchasing power for Social Security income has declined by 34% since the year 2000. Social Security's COLA does a reasonable job of tracking economy-wide inflation; however, most retirees will find that it does not keep pace with their own personal expenditures' inflation.

So, before you go to celebrate this "raise" there are two thoughts you should be keeping in mind.

Your Social Security payments may still fall short of maintaining purchasing power year-over-year.

Relative to working households, retirees tend to spend a higher percentage of their consumption on housing and medical care and a smaller percentage on transportation, education, and apparel. When viewing the consumer price index for older Americans (CPI-E), you can see the COLA hasn't historically kept up with prices of what retirees actually spend their money on. One of the core long-term risks retirees face, inflation risk, is inevitably increased as a result of this (see Fig. 1). This year's COLA will most likely not be significant enough to make up for purchasing power that has been lost over time.

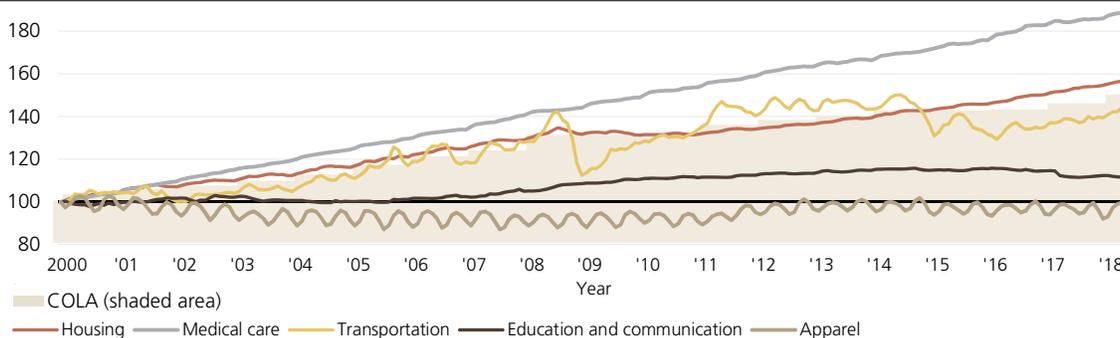
The 2.8% COLA most likely won't be reflected by a 2.8% increase in your monthly net Social Security payments.

When Social Security announces COLA, they are setting the stage for Medicare to then calculate how much of the COLA increase they'll be able to direct towards premiums, which tend to be automatically deducted from your Social Security paychecks. What this means for you over time is that the increase in your Medicare premiums may dampen the relative effect the COLA has on the power of your dollar because healthcare costs tend to inflate at a rate much faster than regular inflation.

Medicare hasn't yet officially announced how much their standard premiums will be increasing, if at all, in 2019. We recommend holding off on making any drastic changes to your budget until you know how all income sources and expenses will change heading in to the New Year. Please see our [Liquidity. Longevity. Legacy.](#) approach to wealth management for additional details.

Fig 1: Social Security COLA vs. select categories from the CPI-E

COLA vs. select categories from the CPI-E for older Americans 62 years of age and older



Source: Bureau of Labor Statistics, Haver Analytics, Social Security Administration, UBS

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