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Social Security in 2014

Next year's small COLA isn't the only adjustment related to the program.

Here are five things you need to know about Social Security for 2014. For clarity's sake, here's a rundown of what is changing next year, and what isn't.

Social Security recipients are getting a raise – but not much of one. Next year, the average monthly Social Security payment will increase by $19 due to a 1.5% cost-of-living adjustment, one of the smallest annual COLAs in the program's history. Since 1975, only seven COLAs have been less than 2%. Four of these seven COLAs have occurred in the past five years, however. The 2013 COLA was 1.7%.[1,2]

How does Social Security measure COLAs? It refers to the government's Consumer Price Index, specifically the CPI-W, which tracks how inflation affects urban wage earners & clerical workers. Social Security looks at the CPI-W from July to September of the present year to figure the Social Security COLA for next year, so the 2014 COLA reflects the very tame inflation measured in summer 2013.[1,2,3]

Does the CPI-W accurately measure the inflation pressures that seniors face? Some senior advocacy groups say it doesn't. The Senior Citizens League, a non-profit that lobbies for elders and retired veterans, contends that Social Security recipients have lost 34% of their purchasing power since 2000 because the CPI-W doesn't track rising health care expenses correctly.[3]

On its website, the Bureau of Labor Statistics admits that the CPI "differs in important ways from a complete cost-of-living measure." The CPI measures increases or decreases in rents, transportation costs, tuition, food, clothing, prescription drug and medical care costs, and the prices of consumer discretionary goods and services – 200 item categories in all. Still, some prices in the CPI rise faster than others; medical costs increased 2.4% from Sept 2012 to Sept 2013, and housing costs rose 2.3%.[2,3,4]

Chained CPI is not yet being used to determine COLAs. Some analysts and legislators would like Social Security COLAs to be based on chained CPI, a formula which assumes some consumers are buying cheaper/alternative products and services as prices rise. Supporters think that pegging Social Security COLAs to chained CPI could reduce the program's daunting shortfall by as much as 20% in the long term.[5,6]

The CPI-W is still the CPI of record, so to speak. That's good for retirees, as the Congressional Budget Office says that COLAs would be about 0.3% smaller if they were based on chained CPI. Perhaps this sounds bearable for one year, but according to AARP, a 62-year-old who retired and claimed Social Security in 2013 would be losing the equivalent of an entire month of income per year by age 92 if chained CPI were used to figure benefit increases.[5,6]

Groups like TSCL and AARP wouldn't mind basing the COLAs on the CPI-E, an alternative CPI that the BLS maintains to track prices most affecting consumers aged 62 and up. From 1982 – 2011, the CPI-E showed yearly inflation averaging 3.1% compared to 2.9% for the CPI-W.[4,5,6]

Social Security's maximum monthly benefit is increasing. In 2013, a Social Security recipient who had reached full retirement age could claim a maximum monthly benefit of $2,533. Next year, the limit will be $2,642.[1]

So is Social Security's annual earnings limit. This limit is only faced by Social Security recipients who have yet to reach the month in which they turn 66. In 2013, retirees younger than 66 were able to earn up to $15,120 before having $1 in retirement benefits temporarily withheld for every $2 above that level. In 2014, the annual earnings limit rises to $15,480. Social Security recipients who will turn 66 next year can earn up to $41,400 in 2014; if their earnings break through that ceiling, they will have $1 of their benefits temporarily withheld for every $2 above that level. Once you get to the month in which you celebrate your 66th birthday, you can earn any amount of income thereafter without a withholding penalty.[1]

On the job, the wage base for Social Security taxes is rising. American workers will pay a 6.2% payroll tax on the initial $114,000 of their incomes in 2014. The 2013 payroll tax cap was set at $113,700. About 6% of working Americans will pay more in Social Security tax next year as a consequence of this seemingly insignificant adjustment.[1,6]

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