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Provisions Affecting Cost-of-Living Adjustments

An annual cost-of-living adjustment (COLA) applies to benefits after initial eligibility. For each provision, we provide an estimate of the financial effect on the OASDI program over the long-range period (the next 75 years) and for the 75th year. We base all estimates on the intermediate assumptions described in the 2016 Trustees Report.

Category A: Cost-of-Living Adjustment (2016 Trustees Report intermediate assumptions)

Present law shortfall in long-range actuarial balance is **2.66** percent of payroll and in annual balance for the 75th year is **4.35** percent of payroll.

Description of proposed provisions		Change from present law (percent of payroll)		Shortfall eliminated	
		Long-range actuarial balance	Annual balance in 75th year	Long-range actuarial balance	Annual balance in 75th year
A1	Starting December 2017, reduce the annual COLA by 1 percentage point.	1.75	2.31	66%	53%
A2	Starting December 2017, reduce the annual COLA by 0.5 percentage point.	0.91	1.21	34%	28%
A3	Starting December 2017, compute the COLA using a chained version of the consumer price index for wage and salary workers (CPI-W). We estimate this new computation will reduce the annual COLA by about 0.3 percentage point, on average.	0.55	0.74	21%	17%
A4	Starting December 2019, compute the COLA using a chained version of the consumer price index for wage and salary workers (CPI-W). We estimate this new computation will reduce the annual COLA by about 0.3 percentage point, on average. The new COLA will not apply to DI benefits. It will apply to OASI benefits, except for those of formerly disabled-workers who converted to retired-worker status.	0.41	0.55	15%	13%
A5	Starting December 2017, add 1 percentage point to the annual COLA for beneficiaries who have lived past a specified age. The specified age is the sum of: (1) 65 and (2) the unisex cohort life expectancy at age 65.	-0.09	-0.11	-3%	-2%
A6	Starting December 2018, compute the COLA using the Consumer Price Index for the Elderly (CPI-E). We estimate this new computation will increase the annual COLA by about 0.2 percentage point, on average.	-0.38	-0.52	-14%	-12%
A7	Starting December 2017, reduce the annual COLA by 1 percentage point, but not to less than zero. In cases where the unreduced COLA is less than 1 percentage point, do not carry over the unused reduction into future years.	1.64	2.18	62%	50%
A8	Starting December 2017, for OASI beneficiaries only (DI beneficiaries would only be affected when their benefit converts to OASI at NRA), the annual COLA would be based on the chain-weighted version of the CPI-U.	0.47	0.61	18%	14%
A9	For single/head-of-household/married-filing-separate taxpayers with modified adjusted gross income (MAGI) below \$85,000 and for joint filers with MAGI below \$170,000 for the prior tax year, use the chain-weighted version of the Consumer Price Index for All Urban Consumers (C-CPI-U) to calculate the cost-of-living adjustment (COLA), beginning with the December 2018 COLA. For those beneficiaries whose MAGI is above the \$85,000/\$170,000 for the prior tax year, provide no COLA. Index the eligibility income threshold amounts to the CPI-U after December 2018.	1.25	2.31	47%	53%