Retiree COLA

Ron Watson

The release of the August 2016 Consumer Price Index (CPI) gave a COLA projection of 0.3 percent toward the 2017 cost-of-living adjustment (COLA) for CSRS and FERS retirees. The final 2017 retiree COLA was to be determined after the release of the September CPI (in mid-October). Therefore, by the time this column is published, we should know the final 2017 COLA. It is very likely to be close to that same 0.3 percent.

The projected COLA for 2017 is more than the zero COLA retirees received in 2016, but not much more. And it is less (measured in dollars) than the likely dollar increases in health benefit premiums, not to mention likely increases in Medicare Part B premiums for many CSRS retirees. It also certainly does not fairly reflect the actual overall increases in living costs that seniors have experienced in recent years. That is a problem, but there is a solution.

The federal government tracks the Consumer Price Index for working Americans on a monthly basis (CPI-W). It also tracks the Consumer Price Index for the elderly on a monthly basis (CPI-E).

> **"Every retiree who is outraged by the paltry 2017 CSRS and FERS COLA should know there is a solution to the problem, but it requires our political engagement."**

The problem is that the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) COLAs are computed based on the Consumer Price Index for younger, working Americans (CPI-W). If the CPI-W accurately reflected the cost needs of seniors, there would not be a problem. Unfortunately, it doesn't.

Not surprisingly, seniors spend a considerably larger percentage of their income on medical and housing expenses than do younger, working Americans. Studies have compared the cumulative CPI-W to health care cost inflation between 2005 and 2015. They show health care inflation outpaced the CPI by at least 1 percent in six of those years, including two years where the difference was greater than 3 percent. As brand-name drug prices soar and surgical-procedure expenses rise, retirees are being denied the income they need to meet these rising costs.

The problem of low (and zero) CSRS and FERS COLAs in the face of rapidly escalating health costs can be fixed. It makes sense to switch from using the current CPI-W to the CPI-E to calculate CSRS and FERS COLAs. Using the CPI-E as the default COLA adjustment could help seniors get fairer inflationary adjustments from year to year, to cover rising housing, medical care and medical insurance premium costs.

By the way, the same problem exists for Social Security COLAs. They are also based on CPI-W increases and so do not accurately reflect the increased costs that retirees face. The same solution exists—that is, Social Security COLAs logically should be calculated using the CPI-E.

Opponents of changing retiree COLA calculations (for CSRS, FERS and Social Security) to a fairer measurement of retirees' living expenses (from CPI-W to CPI-E) often argue that our nation cannot afford to spend more by increasing the amount that retirees receive.

But that argument seems odd. Recent news reports have highlighted the strategy of pharmaceutical companies that purchase the right to long-existing medicines and then astronomically increase the prices. An online *Harvard Business Review* article* provides some examples. In 2001, a pharmaceutical company bought the rights to a medicine used to treat a rare form of childhood epilepsy and developed based on 1950 research by the Mayo Clinic, and promptly raised the price of a vial from $40 to $23,000. In 2015, another pharmacy company purchased the right to a heart drug and promptly raised the price for a single vial from $440 to $2,700. More recent news reports include similar stories, along with reports of pharmaceutical company CEO multi-million-dollar salary increases. All of this apparently is legal.

There is something wrong with this picture. Pharmaceutical companies corner the market on a medicine, increase the costs by hundreds and even thousands of percent, and then lavish company CEOs with millions of dollars in additional compensation. The cost of medical care to all Americans, and especially the elderly, escalates. Meanwhile, the same politicians,who write the laws that allow this to happen, claim our society is too poor to allow retired employees to fairly keep pace with inflation.

Congress should pass a law that changes the calculation of CSRS and FERS COLAs to the fairer Consumer Price Index for the Elderly. But the current congressional leadership is not going to do that. That is why we need to vote on Nov. 8.

Every retiree who is outraged by the paltry 2017 CSRS and FERS COLA should know there is a solution to the problem, but it requires our political engagement. Vote.

---

* https://hbr.org/2016/07/price-gouging-and-the-dangerous-new-breed-of-pharma-companies