Broken promises

Ron Watson

Inflation is the change in price for goods and services. All other variables remaining constant, as inflation rises, purchasing power declines; every dollar buys a smaller portion of goods and services. Cost-of-living adjustments, or COLAs, are intended to keep pace with inflation so that, as the cost of common goods increase, the workers or retirees receive an offsetting COLA so that they can maintain the same standard of living.

On the face of it, a cost-of-living adjustment is neither good nor bad. If the price of goods and services goes up, the COLA will match it and will help you maintain the same standard of living. If the price of goods remains the same, and there is no COLA, your standard of living should be the same assuming all other variables remain constant. On the other hand, if the price of goods and services goes down, there is no negative COLA adjustment.

The reality of COLAs is different. To understand, we need to look at how COLAs are calculated. COLAs for Federal Employee Retirement System (FERS) and Civil Service Retirement System (CSRS) retirees, as well as COLAs for active letter carriers, are based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The Consumer Price Index reflects the weighted prices of a relatively fixed basket of goods and services. As the price for the goods and services change, the Consumer Price Index changes.

There are multiple ways to measure the change in prices for goods and services. Each method relies on a different basket of goods and services. An alternative to the CPI-W is the CPI-E, which is the Consumer Price Index for the Elderly. The CPI-E follows inflation for those aged 62 and older and might be a better metric for retirees, as it places a greater weight on medical care, which tends to increase with age. The CPI-E has risen faster than CPI-W and its use would have resulted in a larger adjustment for retirees.

CSRS retirees receive a COLA based directly on the CPI-W. If the CPI-W increases 3 percent for the year, the COLA will be 3 percent. These COLAs are effective each year on Dec. 1.

FERS retirees receive COLAs in a more complicated manner. First, FERS retirees do not receive a COLA until age 62, except for special retirement elections, such as disability retirement. So, FERS employees who retire at age 57 won't receive COLAs for five years until they reach age 62. Additionally, FERS retirees are subject to reductions. If the CPI increase is less than 2 percent, the COLA is equal to the CPI. If the CPI is 2 to 3 percent, the COLA will be rounded down to 2 percent. If the CPI is greater than 3 percent, the COLA will be 1 percent less than the CPI. In general, this means that FERS employees receive less of their COLA than the actual measure of inflation. Over the past 18 years, FERS retirees have seen their COLA rounded down or reduced on 10 separate occasions. To someone on a fixed income, every cent can make a difference.

The Trump administration's FY2018 budget plan was released and called for benefit cuts to both CSRS and FERS. As proposed, the budget plan would reduce COLAs for CSRS retirees by 0.5 percent every year. FERS retirees who are already subject to a reduced COLA would suffer the total elimination of their COLAs. What impact would this have for an aging population on a fixed income?

Although we can't predict the inflation rate for the future, we might gain some insight from the history of inflation. Even though inflation has been very low over the past few years, and COLA recipients have not received much adjustment, historically average inflation has been more than 3 percent per year. This may seem a small amount, but consider these numbers to understand the impact year after year. In the absence of a COLA, just three years into retirement, you would have approximately 91 percent of the purchasing power you had when you entered retirement. After 10 years, you would be at 75 percent. For a FERS retiree who had 30 years of service, this would amount to a pay cut of approximately $373 per month simply because they stopped receiving a COLA for 10 years. If you retired at age 57, your purchasing power would be at 50 percent by age 81, half of what was promised to you during your career.

Without important COLAs, inflation will slowly but surely reduce a retirement annuity by eroding its purchasing power—all while the annuitant grows older and would have a difficult time returning to the workforce to make up the difference. The elimination of COLAs would target our most vulnerable letter carriers and break the promise to those who spent their lives in service as federal employees. Any proposed changes to our retirement system, good or bad, must be voted on by our 535 representatives on Capitol Hill to become law.

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