COLA updates for retirees

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The release of the September consumer price index (CPI) by the Bureau of Labor Statistics on Oct. 13 means that the Office of Personnel Management and the Social Security Administration can calculate and release news regarding the 2021 cost-of-living adjustment (COLA). Generally, the COLA calculation starts by measuring the change in the CPI for urban wage earners and clerical workers (CPI-W) from the third quarter of one year to the third quarter of the next year (except following years that had no COLA). This change in CPI-W results in a 5.9 percent increase, so the 2022 COLA will be a whopping 5.9 percent for the Civil Service Retirement System (CSRS), and 4.9 percent for the Federal Employees Retirement System (FERS). Social Security will also be 5.9 percent, as both systems use the same basis. There are no COLAs for FERS participants under age 62 except for disability and survivor annuities.

COLAs are very important in maintaining our modest retirements as the years go on. If we did not receive COLAs, our annuities would remain exactly the same, but as the prices of goods and services rise (inflation), our annuities would have less purchasing power. Although we have generally enjoyed relatively low inflation numbers for the last few decades, we are now seeing a sharp increase in inflation, making the importance of our COLAs more evident. But even modest increases in inflation make a huge difference when compounded year after year.

We haven't always had a COLA. It wasn't until 1962 that COLAs became part of the law and were incorporated automatically. But the new law was far from perfect. It would kick into effect only if the change in inflation was greater than 3 percent. If this was still the rule today, CSRS retirees would not have received a COLA 22 times when inflation was between zero and 3 percent. These missed COLAs would have added up to a substantial sum and wouldn't even account for the additional impact of time and compounding interest.

After 1962, there were many more legislative changes. Some legislation reduced or even skipped COLAs in certain years, despite increases in the cost of living. The Omnibus Budget Reconciliation Act of 1983 ended up setting the rules that we are currently familiar with. It set COLAs to be effective in December and payable in January, and based them on the change in the average monthly CPI-W from the third quarter to the third quarter of the following year. This formula and schedule are the same as those used to calculate COLAs in the Social Security Administration.

Let's get to the elephant in the room. The 4.9 percent FERS COLA, although it is based on the same CPI and the exact same time period, is smaller than the 5.9 percent CSRS COLA. That is because FERS has reduced COLAs. When the increase in the CPI-W is under 2 percent, the COLA will be the same percent. But when the increase in the CPI-W is 2.0 percent to 3.0 percent, the COLA will be exactly 2.0 percent. So if the increase in CPI is 2.9 percent, FERS annuitants will be shorted 0.9 percent. And finally, when the increase in the CPI is greater than 3.0 percent, the COLA will be the increase in the CPI minus an entire percentage point. So in this case, because the increase in the CPI-W was 5.9 percent, FERS annuitants will receive only a 4.9 percent COLA.

Over the decades, the amount of money lost—when compared to an unreduced COLA—becomes quite substantial. A consistent and reliable annuity is especially important when retirees are on a fixed income, and face health benefit costs that continue to rise uncontrollably in the United States.

Since FERS COLAs started in 1988, they have actually been reduced on 22 occasions out of only 34 years in accordance with the reduced COLA formula. A current bill in Congress, H.R. 304, known as the Equal COLA Act, sets out to achieve parity by eliminating the reduced COLAs under FERS. Why shouldn't FERS annuitants, who already receive a smaller annuity than an equally situated CSRS annuitant, receive the same unreduced COLA?

In the same manner that this bill can help retirees, any bill could be written, and if passed, reduce or even eliminate benefits. It is for these reasons that retirees must stay attuned to legislative agendas, and be advocates and communicate your positions to your representatives. The letter carriers before us fought to achieve, maintain and improve our current retirement benefits. We should attempt to honor them and pay it forward to the next class of retirees through our activism, so that they too can have a happy and healthy retirement.

On behalf of the Retirement Department, I want to wish you and your family a merry Christmas and a happy New Year!