



OLR RESEARCH REPORT

October 22, 2012

2012-R-0476

OLR BACKGROUNDER: 2013 SOCIAL SECURITY COLAS AND EMPLOYEE CONTRIBUTIONS

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This report discusses Social Security cost-of-living adjustments for 2013 and the concurrent increase in the Social Security payroll tax that employees will have to pay starting January 1, 2013.

SUMMARY

The Social Security Administration recently announced that there will be a 1.7% cost-of-living adjustment (COLA) in Social Security benefits for 2013. This increase, which goes into effect in January 2013, is less than half of the increase provided in 2012. COLAs are based on changes in the prices consumers pay for goods and services during the same quarter in two consecutive years, although beneficiaries' benefits do not fall when prices fall. Despite this year's increase, Medicare beneficiaries may not benefit from the COLA since their Part B premiums are expected to rise by about 7% in 2013.

Workers, on the other hand, will have less money in their pockets in 2013. The December 31, 2012 expiration of the Social Security payroll tax cut for employees, coupled with an increase in the maximum amount of income subject to the tax, means that employees will be paying more in taxes.

HOW COLAS ARE DETERMINED

Federal law provides that both Social Security (including retirement and disability) and Supplemental Security Income benefits increase automatically each year by the same percentage increase in the Bureau of Labor Statistics' Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-UW). This ensures that the purchasing power for people receiving these benefits is not eroded due to inflation.

The law also provides a stop-loss protection: if the CPI-UW falls during these periods, beneficiaries do not see a drop in their Social Security benefits. (If the increase is less than .05%, there is likewise no COLA.) Hence, in 2010 and 2011 prices overall fell, but benefits stayed the same.

Some may wonder why the increase is not higher this year given much higher gas prices. The reason is that gas prices have risen recently, while the CPI-UW compares the third quarter of the prior year (2011) with prices in the current third quarter (July 1 to September 30, 2012). Thus, the recent increase in gas prices is not fully reflected in this year's COLA.

COLAS IN THE PAST

Since 1982, COLAs have been effective with benefits payable for December (received by beneficiaries in January). Table 1 shows the COLAs since 2000.

Table 1: Social Security Colas—2000-Present

Year	COLA %
2000	2.5
2001	3.5
2002	2.6
2003	1.4
2004	2.1
2005	2.7
2006	4.1
2007	3.3
2008	2.3
2009	5.8
2010	0
2011	0
2012	3.6
2013	1.7

Source: U.S. Social Security Administration

COLA'S IMPACT ON MEDICARE BENEFICIARIES

Social Security beneficiaries enrolled in Medicare typically have their Medicare Part B premiums deducted from their Social Security check. Although the Part B premiums for 2013 have not been announced yet, they are expected to rise by about 7% or from just under \$100 to about \$107 per month for most beneficiaries. Thus, some Social Security beneficiaries could see most, if not all, or their COLA absorbed by the increase in the Part B premium.

EFFECT OF EXPIRING TAX CUTS ON WORKERS WHO PAY SOCIAL SECURITY TAXES

While program beneficiaries will see a small rise in their Social Security benefits in 2013, most employees will be paying more in Social Security taxes unless Congress and the president agree to extend certain tax cuts. This is because the temporary cut in the employee's share of the 12.4% payroll tax (from 6.2% to 4.2%), which was adopted in 2011 and extended through 2012 as an economic stimulus measure, is set to expire on December 31, 2012. This reduced rate currently applies to the first \$111,100 of income. (This tax will likewise generate more federal revenue because the maximum salary subject to it is set to rise to \$113,700. This "wage base" is determined by the increase in average wages, as opposed to the CPI-UW.)

Regardless of what happens with the Social Security tax, higher income workers (\$200,000 for single filers and \$250,000 for married couples filing jointly) will see even more taxes withheld from earnings starting in January 2013. This is because the federal Patient Protection and Affordable Care Act of 2010 (Section [9015](#)) includes an additional 0.9% Medicare surtax on wages and self-employment income of these earners.

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