Rodney's Take

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A Group Happy With Inflation?

It's a bit economically perverse that the economy is chugging along so well that the Fed hawks can get away with whatever they're trying to achieve with higher rates. According to the last employment report, the unemployment rate ticked up from 3.5% to 3.7%, but only because more people are drifting back into the workforce.

Good! With almost three jobs per unemployed person, we need all the labor that we can get. But don't confuse workers with happy people; inflation is robbing the average worker of purchasing power. It's a good thing for the government that a large section of the population is not working and stands to benefit from the recent bout of higher prices: retirees.

Just over a decade ago, we at HS Dent did an extensive research project on inflation by age range. Our point was that all costs don't rise together and, therefore, inflation affects various age groups differently. Energy and education costs hit young adults the hardest, while energy and medical care costs land squarely on those over age 65. People in the middle are burdened the most by housing costs, which makes sense, as these are the consumers most likely to buy homes. But none of this addressed the positive effect of inflation, namely, a big, fat, cost-of-living adjustment to Social Security benefits that likely will outstrip the inflation rate you see in the paper.

When the U.S. Bureau of Labor Statistics (BLS) reports "inflation," it is actually presenting one of many inflationary measures that it computes, the Consumer Price Index for all Urban Consumers (CPI-U), which, according to

BLS estimates, includes 93% of all prices. The CPI-U increased 8.5% over the past year. However, the Social Security Administration doesn't use CPI-U to calculate the annual cost-of-living adjustment (COLA) for Social Security beneficiaries. Instead, the agency uses the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which, according to BLS estimates, captures 29% of price changes. The CPI-W often is less than CPI-U. This difference results in a COLA smaller than the inflation that we read about in the papers and experience at the store.

This year, retirees are going to make up some ground.

While CPI-U has backed off to 8.5%, CPI-W, which peaked in June at 9.8%, was 9.1% in July. There is a strong possibility that Social Security beneficiaries will get an almost-10% COLA at the beginning of next year, which would make tens of millions of Americans very happy.

To put this into perspective, 62 million Americans receive such payments. While 261 million Americans are considered workforce age (15 to 64 years old), only 207 million participate. A population equal to a little less than one third of the active workforce is about to get a big boost. The Social Security Administration estimates that the average COLA will be around $150 per month ($1,800 per year) and, of course, it will last forever… Or will it?

This all begs the question, "Where will the money come from?" The Social Security Trust Fund was set to run out in 2034. I put that in the past tense, because who saw a 10% boost in payments starting in 2023? Surely the fund will go kaput before then. I'm not one to think that Congress will just blithely let benefits fall to the level of the current payroll tax, or about 75% of what is owed. We'll pay the money, of course, but every day and every Congressional session during which our legislators don't take up this issue makes it that much more expensive.

This leads to one more inflationary pressure on current workers: the tax money needed to pay those who have already checked out.

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Got a question or comment? You can contact us at info@hsdent.com