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### “Cherry Picking the SS COLA and More”

In 1972, the US Government passed legislation that automated a Cost-of-Living Adjustment (COLA) for Social Security (SS) to help keep SS recipients’ purchasing power in line with inflation.<sup>1</sup> The legislation provided that the COLA would be based on the rate of inflation evidenced by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Under this regime, the COLA was computed as the percentage change in the CPI-W for the first quarter of year t over the first quarter of year t-1. This COLA was first paid in July of 1975.

In 1983, as part of broader SS reform, the US Government revised the automatic COLA. The new COLA was computed as the percentage change in the CPI-W for the third quarter of year t over the third quarter of year t-1. Another adjustment to the COLA was that it was paid in January of year t+1. COLA computation under this regime began in 1984, and payment started in 1985.<sup>2</sup>

Relevant questions to ask concerning the revised COLA are: Why was a change made to the timing of the COLA’s calculation from the first to the third quarter? and Was the third quarter “cherry picked” to save the US Government resources to the disadvantage of SS recipients?

In our research to determine why the third quarter was selected for the revised COLA calculation we were unable to identify an explicitly stated explanation in the literature. One explanation might be that there was an interest in aligning the COLA calculation with the end of the US Government’s fiscal year. However, what follows may provide a more meaningful explanation.

We calculated the quarter-one-year-ago percent changes in the CPI-W for the years 1984-2020 and Table 1 shows that year-over-year percent changes for the second, third, and fourth quarters averaged one tenth of a percentage point (0.001) lower inflation than the first quarter (2.5 percent versus 2.6 percent). Also, the table shows interesting facts about the CPI-W for the four calendar quarters over the period. While the first quarter was the highest inflation quarter 11 times over the 37-year period, the third quarter was the highest inflation quarter only 6 times. For completeness, we note that the first quarter reflected the lowest inflation rate 12 times compared with just 3 times for the third quarter.

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<sup>1</sup> See “Cost of Living Adjustment.” (2017) US Social Security Administration. Retrieved February 21, 2021; <https://www.ssa.gov/pubs/EN-05-10526.pdf>. By Social Security (SS) we intend OASDI (Old Age Survivors and Disability Insurance).

<sup>2</sup> See J. A. Svahn and M. Ross. (1983) “Social Security Amendments of 1983: Legislative History and Summary of Provisions.” *Social Security Bulletin*: Vol. 46; No. 7, pp. 3-48.

**Table 1.—CPI-W Average Inflation Rates and Counts: 1984-2020**

	QI	QII	QIII	QIV
Average annual inflation rate	2.6%	2.5%	2.5%	2.5%
Number of times the highest inflation quarter	11	8	6	12
Number of times the lowest inflation quarter	12	7	3	15

Source: US Bureau of Labor Statistics data with BlackEconomic.org computations

The one tenth of one percentage point difference in inflation may seem small on its face. However, when cumulated over the last 37 years, it amounts to 3.7 percent. To grasp the magnitude of funds saved by the US Government by basing the COLA on the third versus the first quarter, we increased annual SS and Supplemental Security Income (SSI) payments over the years 1985-2019 by one tenth of a percentage point each year.<sup>3</sup> The total difference amounts to \$18.9 billion. This is a significant denial of monetary benefits to SS and SSI recipients that resulted from an apparent “cherry picking” of the third quarter for computing the COLA.<sup>4</sup>

Further potential evidence on “cherry picking” of the third quarter may be seen in Table 2, which reflects outcomes that were available to policymakers at the decision point.

**Table 2.—CPI-W Average Inflation Rates and Counts: 1970-1983**

	QI	QII	QIII	QIV
Average annual inflation rate	7.5%	7.4%	7.4%	7.4%
Number of times the highest inflation quarter	8	2	0	4
Number of times the lowest inflation quarter	5	0	2	7

Source: US Bureau of Labor Statistics data with BlackEconomic.org computations

Simply put, Table 2 shows that for 1970-1983, the first quarter reflected the highest average inflation rate (7.5%). Also, the first quarter was the highest inflation quarter 8 times compared with 0 times for the third quarter.

All of this is relevant for Black Americans because, as noted in our commentary “[USDS Likely to Trump SSS](#),” Black Americans reflect a high reliance on SS as a source of income. Imagine what an additional nearly 4.0 percent in SS and SSI benefits would mean for Black Americans today.

This seeming “cherry picking” of the third quarter to compute the SS COLA is evidence that Black Americans must be vigilant and scrutinizing of US Government policymaking. This is particularly true for COLA-related policies. For example, see our essay entitled “[A Black CPI](#),” which appears to be supported by newly released research on prices faced by urban consumers.<sup>5</sup>

<sup>3</sup> Data on US SS and SSI benefits were obtained for 1985-2019 (estimates for 2020 were not available) from the US Department of Commerce’s Bureau of Economic Analysis, NIPA Table 3.12. Retrieved February 21, 2021; [www.bea.gov](http://www.bea.gov).

<sup>4</sup> It is worth noting that this COLA is also used to adjust other US Government payments.

<sup>5</sup> See A. Eizenberg, S. Lach, and M. Oren-Yiftach, M. (2021). “Retail Prices in a City.” *AEA Journal of Economic Policy*: Vol. 13; No. 2, pp. 175-206. This article concerns Jerusalem, Israel, but may be representative of certain US urban areas.

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