

Social Security and Inflation

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There are some people who think that retirees have less inflation than the average person. Often this is based on the fact that they are still paying fixed home mortgage payments. However, after the mortgage is paid, or they try to buy a new home, or they become renters, their personal inflation rate jumps remarkably. Older people with large medical expenses as well as those dependent on substantial service support will definitely experience higher than average inflation.

The fact is that as people age, they need more medical care, much of which isn't insured including drug, dentist, eye and hearing related charges. Even the part of their bills that is covered by medical insurance costs more.

I've helped support three parents through a number of stages of needing additional help—all the way from starting retirement in good health to assisted care and more. I've watched Medicare reduce coverage a number of times. For example, my mother-in-law required assistance with bathing. That's no longer covered. Then she needed monthly blood tests for her blood thinner. After a bit, Medicare dropped that coverage too. Then she needed daily blood tests for diabetes. Again, not covered.

My wife and I regularly provide some assistance to aged single ladies in our community who live in low cost rental units. They have multiple rows of bottles with various kinds of pills. Because the major source of their income is social security, they often cut the required dosage in half or stop taking the medicine entirely in order to have enough money for food and their apartment rent. Forget eye, ear and dental costs—they can't afford any.

There is no way that a single consumer price index (CPI) can reflect the increase in costs these people experience. Perhaps when they first retire, the "basket" of purchases used by the government to establish the index is valid. But each successive stage of aging should have a basket that gets weighted more and more to both medical and service assistance costs. These costs increase much faster than the other items in the "basket," so the real inflation rate for a retiree is much higher than a CPI measured before retirement. Even if you decided to use a "basket:" for some kind of average 70 year old person, it would not represent the basket for an 80 year old, much less anyone in their 90s.

If you think that social security is going to be adjusted for the real inflation rate of a retiree, forget it! A higher inflation rate for retirees would pose an insurmountable quandary for Congress which is already pressed by impending social security disaster as we go from three workers to support every retiree at present to only two workers per retiree in the future.

As a palliative to AARP, the Senior's Coalition, etc., the government is conducting an "experiment" to find a CPI

that might be more appropriate for social security payment adjustments. Initially, their "findings" (read "contrivances") indicated that the CPI overstated inflation. Somewhat more serious results to date indicate about a 0.2% higher rate of inflation for retirees than the current CPI. I strongly suspect that even this is not a representative amount for two reasons: (1) The basket changes as people age, and (2) I have participated in enough government studies to know that the leader of the study will keep changing the ground rules until the results are politically acceptable. A large increase is not politically acceptable in this environment. In fact, I doubt if the congress could tolerate any larger payments.

Of course, there is the argument that social security was never intended to cover all of a retiree's expenses—perhaps only 40%. The rest was to come from pensions and savings. The problem comes when people have exhausted their savings and/or inflation has decimated their fixed pensions. Then social security becomes the major support. It's going to be hard to have much sympathy for those baby boomers who blew it all before retirement and saved precious little in the race to keep up with the Jones. However, there always will be those who really did their best and failed to come up with the other 60% or whatever.

In the case of my elderly family members, the total costs escalated at well over twice the CPI over a twenty-year span. This is only possible when costs are not constrained by income because relatives aided whenever possible so that medical care and services were always there. In the cases where my wife and I visit elderly ladies whose income is constrained, they don't get all of the needed medical help even when they have to give up other things which many of us consider necessities. Therefore this group's "inflation" generally is not much above that provided by social security.

I don't have an answer to any of this, but I have some suggestions how to reflect the problem in projections of a retiree's costs and the real value of social security income for a retiree. If you are using a computer program for planning, be careful if it automatically assumes both costs and social security increase at the same inflation rate or does not provide for some of those extraordinary costs that can come late in life. Often you can partially reflect the problem by doing several things in the program: (1) Use a higher than average inflation rate for retirement years. (2) Set aside some contingency funds for late life medical problems as well as uninsured services that may be required. (3) Since it's highly unlikely that social security will ever be adjusted at a higher rate for retirees than workers, put part (Perhaps 1/2) of your social security payment as a social security entry and the other part as a fixed pension entry that doesn't increase with inflation.

In any case, don't assume that the inflation adjustment for social security is going to cover those inevitable cost increases in your retirement. You'd better plan more conservatively!