Chart of the Month

September 2022

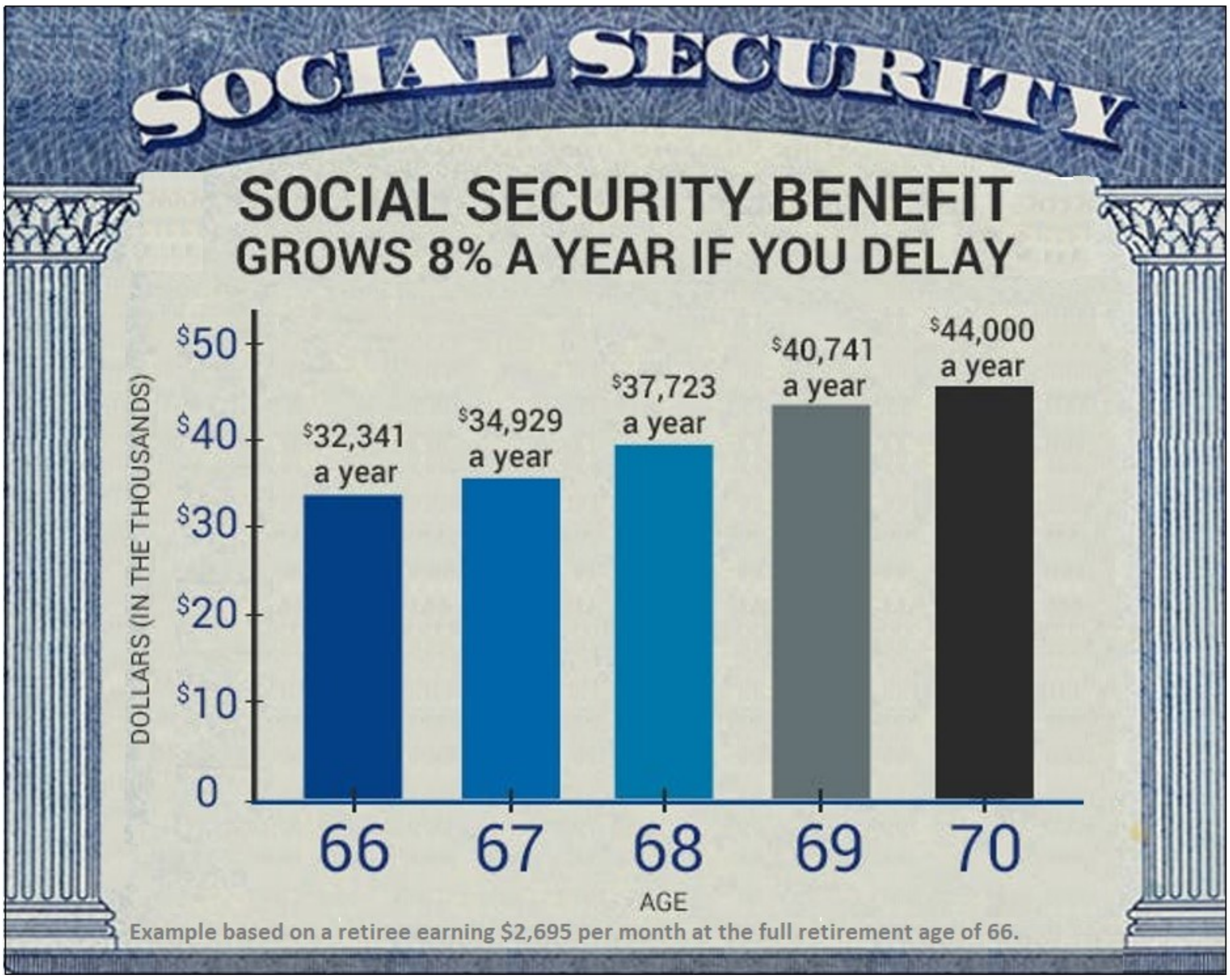
Inflation, as measured by the Consumer Price Index (CPI), has increased 8.3% on an annualized basis through August, the highest rate in four decades. The Federal Reserve has responded by raising the fed funds rate from a range of 0.00-0.25% to 3.00-3.25% since March and has indicated a desire to lift it to 4.50-4.75% by early next year in an effort to slow the pace of inflation toward its goal of 2.0%.

While the rise in inflation and interest rates has negatively affected stock and bond investors this year, Social Security recipients are projected to receive an increase of approximately 8.7% in 2023, the largest boost in the history of most retirees alive today. The annual cost-of-living adjustment (COLA) is designed to help benefits keep up with inflation. The Social Security Administration will announce the actual COLA in the middle of October after the release of the September inflation report. It is based on the rate of change in the Consumer Price Index for Urban Wage Earners and Clerical Workers, or CPI-W, from the third quarter of 2022 compared to the same period in 2021.

The COLA could push some high earners into owing Medicare premiums based on their income. For 2022, individuals and couples whose 2020 income exceeded $91,000 and $182,000, respectively, have to pay more than the standard Part B premium of $170.10 a month per person. These premiums are deducted from Social Security checks. Higher earners also pay more for Part D drug plans.

Without Congressional action, it is estimated that the program's $2.8 trillion retirement trust fund will be depleted by 2034. Lawmakers could raise taxes to increase inflows, cut benefits to slow outflows, raise the retirement age, or some combination to keep it solvent. Unless Congress acts within the next dozen years, benefits will be reduced by 23%, with payroll taxes continuing to fund the remaining 77%, according to the most recent Social Security trustees report.

Social Security is available to widows and widowers as early as age 60 while other participants are eligible at 62. Full retirement age is 65-67 depending on one's date of birth. The starting age determines the monthly benefits. The longer one waits, the more one earns. Payments rise by roughly 8% annually from age 62 to 70 for those who defer their benefits. The optimum start date is largely based on how long one expects to live. If you can afford to go without Social Security early on — and plan on living at least into your early-80s — then holding out until age 70 will produce the maximum benefits.



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