

# 4 Things You Must Know About Inflation

## 1 Inflation Is a Historic Reality

\$100 in groceries purchased in 2004 cost approximately \$135.82 worth for the same groceries in 2019. That's a 26% reduction of a dollar's buying power in 15 years. Most CPI (Consumer Price Index) numbers you see are based on \$100 worth of purchases. The index measures the price change from a designed reference date. For most, the current reference base is 1982-84 equals 100. For instance, if you see a CPI-W number for January 2023 of 293.565, it means that it would take about \$293.56 in today's dollars to purchase what would have cost \$100 in 1982-84.

## 2 But There Are Different Measures Of Inflation

CPI and the chained CPI are metrics to measure the cost of living. CPI stands for consumer price index, which looks at how much everyday items like food increase over time. However, instead of simply taking into account only price changes on individual products themselves (like beef), the chained CPI takes it one step further by factoring in substitutions: people may switch from buying a more expensive item to purchasing cheaper alternatives if their budget can't cover an increased price point - think switching out a steak dinner with a chicken dinner during times where there are inflationary pressures affecting market pricing standards. You can probably think of a thing or two you've bought less of (and what you've purchased instead) since inflation took hold in America's grocery stores, gas stations, and elsewhere. That's called the substitution effect.

## 3 COLA (Cost Of Living Adjustments) Are Made to Social Security Payments Based On CPI... For Now

In October 2022, Social Security announced the biggest increase in beneficiaries' cost of living adjustment (COLA) in 40 years: 8.7%. The trouble is, Social Security is using an outdated measure that's driving up benefit costs. Since 1975, Social Security has applied an annual cost of living adjustment upwards to help maintain retirees' buying power relative to inflation rates based on CPI, specifically the rounded Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Cost data is collected within 8 overall categories - food and beverages, housing, apparel, transportation, medical care, recreation, education/communication, and other. CPI-Ws are calculated on a monthly basis by the Bureau of Labor Statistics. CPI-W reflects the purchasing behavior of about 3 in 10 U.S. individuals. There is a broader Consumer Price Index for All Urban Consumers (CPI-U), that covers 8 out of 10 individuals in the U.S. This broader measure—by considering the prices paid by a larger number of individuals—improves inflation measurement accuracy.

Lawmakers debate indexing Social Security's COLA to the more accurate chained consumer price index (C-CPI-U), which also acknowledges that people choose less expensive and different goods and services in response to changes in prices. According to the Social Security Administration, this reform would eliminate about one-fifth of Social Security's long-term fiscal imbalance. And it would more accurately protect the value of benefits from the impact of inflation on beneficiaries' cost of living. The Congressional Budget Office projected that adopting chained CPI would save Social Security about \$150 billion over 10 years (or about 15% of the projected 10 year growth in benefit. And that was before the 2022 spike in inflation. Ultimately this could also mean lower cost-of-living adjustments depending on which formula government officials decide to use.

## 4 Inflation Solutions

Once you realize how inflation is calculated, and how detrimental inflation can be when you're on a fixed income, you'll want to search for solutions that will help you in retirement. Let's discuss solutions, such as your investments, fixed indexed annuities with inflation riders and other options.



**Our goal is to help your retirement income payments increase as inflation increases while striving to protect your purchasing power over your retirement lifetime.**

**Call us today to learn more - 1 (800) 838-3079**

### Sources

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