COLA News: Be Ready for an Even Smaller Boost in 2025

By: Kevin Lilley

FEBRUARY 07, 2024

After three years of above-average increases in military retirement pay and Social Security benefits, falling inflation figures point to a 2025 cost-of-living adjustment (COLA) far below what recipients may have come to expect.

This year's 3.2% COLA hike was well below the last two annual increases of 8.7% and 5.9%, respectively. But aside from those years, it still ranks as the highest in more than a decade, and well above a 20-year average that sits slightly north of 2.6%.

But early projections put the 2025 COLA well short of this year's adjustment – a 1.4% estimate would be the lowest since the 1.3% increase from 2021.

[UPDATED MONTHLY: MOAA's COLA Watch]

COLA Calculations

While it's important to include as much information as possible in any financial planning, current inflation figures don't directly factor into COLA determination.

The adjustment is set by comparing the average of the July, August, and September Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) amounts with the previous year's average from those same months. The percentage increase becomes the COLA rate; if the new number is equal to or lower than the old figure, payments would remain flat.

Any number of economic factors could play into inflation-rate changes in the coming year, and early predictions for this year's COLA ended up below the actual figure. However, signs point to continuing inflation-reduction tactics from the Federal Reserve, even as the Fed's preferred price index – which pulls from a different data set than the CPI-W – moved within a percentage point of the agency's long-term 2% goal.

MOAA and COLA

A lower COLA makes the adjustment a less-tempting target for lawmakers, who could reduce the figure as a way to pay for other projects or attack a ballooning budget deficit. But just because the rate is lower doesn't mean the threat goes away.

An example: Military retirees received a 1.5% COLA adjustment in 2014, but in December 2013, then-President Barack Obama signed a continuing resolution which would reduce COLA payouts to military retirees under age 62 by 1% beginning in 2015.

Relatively low inflation rates didn't spare these retirees from a potential cut to their benefit, but MOAA and its partners in The Military Coalition successfully defeated the threat; learn more about how that fight took shape at this link.

While no threats to COLA have materialized during recent budget discussions – as yet, a budget hasn't materialized, either – MOAA continues monitoring other ways Congress could weaken the earned retirement benefit.

Case in point: A Congressional Budget Office (CBO) option suggesting an "alternative measure of inflation" to determine the annual COLA. This new calculation, known as "Chained CPI," would carve about $250 billion off the budget deficit over 10 years, according to CBO … money removed from the checks of military retirees, VA disability pay recipients, and others whose benefits are indexed to the Social Security COLA calculation.

Protecting the value of earned retirement pay remains a core legislative priority for MOAA – one that will remain on that priority list regardless of inflation figures or economic indicators. Keep up with the latest on COLA by visiting MOAA’s COLA Watch page, and get involved with this and other advocacy issues by registering at MOAA’s Legislative Action Center.