

INFLATION AND SOCIAL SECURITY: MANAGING PURCHASING POWER

The 2027 Social Security COLA of 3.6% is one of the highest in recent decades. What does it mean for retirees' purchasing power, and how should investors respond?

The annual Social Security cost-of-living adjustment (COLA) is one of the most important developments for retirees and consumers. Beyond setting next year's benefit increase for recipients, it also reflects the broader inflation trends affecting all consumers and investors, which matters more than usual today as inflation continues to add pressure to many households.

The Social Security Administration recently announced a 3.6% COLA for 2027, one of the highest in recent decades. While this is a healthy increase on paper, the adjustment is only one part of an overall strategy for maintaining purchasing power as prices rise. For long-term investors, it helps to understand what is driving inflation, what it means for cash yields, and how it affects portfolios.

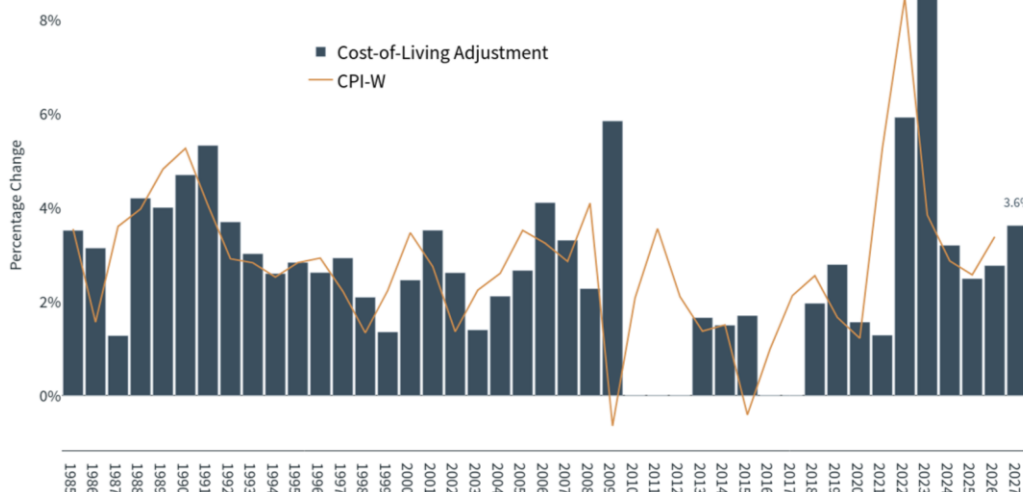
The 2027 COLA reflects higher energy prices

Inflation has faced two competing trends over the past year. Pandemic-era pressures have continued to ease, with the Consumer Price Index slowing from a peak of 9.1% year-over-year in 2022 to 2.7% at the start of 2026. However, rising energy prices tied to the war in Iran have pushed inflation back up in recent months, with the latest CPI figure showing prices up 3.7% over the past year.

As a result, the 2027 COLA of 3.6% is the fifth-largest increase in over 35 years and the highest since the 8.7% adjustment that took effect in 2023. It is also well above the 3.1% average COLA over the past decade.

Social Security Cost of Living Adjustment

Annual COLA. Current year estimate is based on Q3 2026 Consumer Price Index



Sources: Clearnomics, Bureau of Labor Statistics, Social Security Administration. Latest data point is September 2026.

COLA is calculated using the CPI-W, a version of the Consumer Price Index focused on "urban wage earners and clerical workers," which compares third-quarter price levels against the same period a year earlier. No single number can reflect every retiree's needs. The latest COLA means the average recipient will receive approximately \$75 more per month beginning in January 2027, which may not fully offset rising costs for healthcare, prescription drugs, and other necessities.

An experimental alternative, the CPI-E (Consumer Price Index for the Elderly), tracks households headed by adults aged 62 and older and has been proposed as a better gauge of senior spending. Because seniors spend a larger share of income on inflation-sensitive areas like healthcare and housing, CPI-E generally rises faster than CPI-W. From January 1985 to January 2025, CPI-E rose 221% versus 197% for CPI-W, though no index perfectly captures every household's experience.

For retirees enrolled in Medicare, the monthly Part B premium covering outpatient care is projected to rise by \$6.60 to \$209.50. Since it is typically deducted from Social Security checks, it could partially offset the COLA increase.

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Part D prescription drug plan costs are also rising, so the actual gain in purchasing power for many retirees may be smaller than the headline percentage suggests.

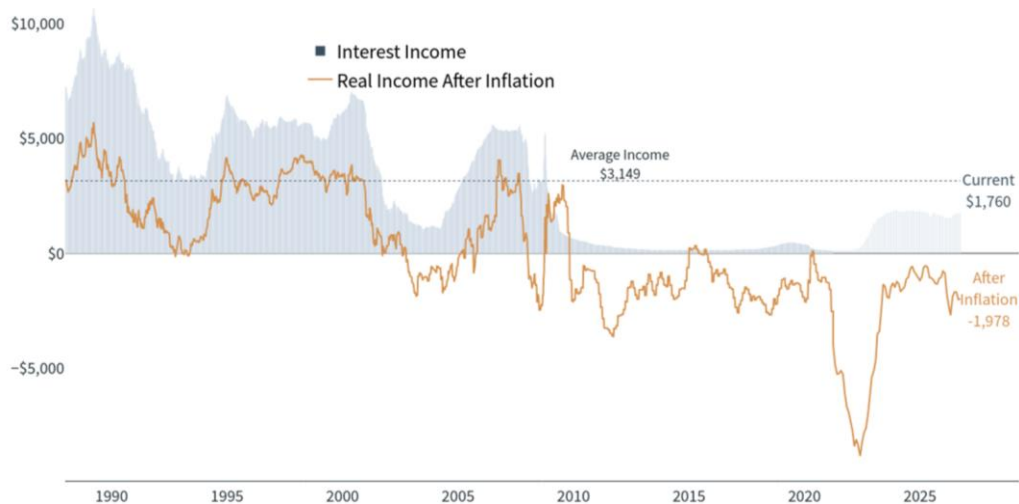
Consumer spending is supporting broad economic growth

Inflation continues to affect many parts of the economy. Headline CPI rose 3.7% year-over-year in September, with a 9.1% surge in gasoline prices accounting for more than half of the increase. In contrast, core CPI, which excludes food and energy, rose only 2.6%.

This suggests energy, rather than broad-based price pressure spreading across the economy, remains the primary driver of today's inflation. "Supercore" inflation, which excludes food, shelter, and energy, rose only 2.0%, and other measures paint a similar picture.

Interest Income on Cash

\$100k invested in 6-month CDs against inflation. Actual rates may vary



Sources: Cleareconomics, FDIC. Latest data point is October 2026.

Higher inflation has pushed consumer sentiment to historic lows, yet many measures of consumer spending remain strong. Retail sales grew a significant 6.3% over the past year in September, though inflation played a part, with gasoline accounting for approximately 71% of the monthly increase.

These factors all feed into real Gross Domestic Product (GDP) growth, which excludes the effects of inflation. Despite higher inflation and uncertainty in the labor market, consumer spending has been strong, as shown in the chart above. Business investment has also held steady, helped by AI-related spending on data centers and infrastructure. Together, these have helped support economic growth, corporate profits, and financial markets despite ongoing challenges.

Cash yields are still lagging behind inflation

While economic growth remains stable, the combination of inflation and higher interest rates creates additional challenges for long-term investors. Even though nominal rates are elevated compared to much of the past decade, inflation-adjusted cash yields remain lower than many investors might expect, especially with the Fed raising policy rates.

The chart above shows interest income on cash based on average six-month certificate of deposit yields from the FDIC. Although these rates are higher than in the past, they still aren't keeping pace with inflation. Some products may offer above-average rates, but they require ensuring proper rollovers and monitoring the overall rate environment. Maintaining the purchasing power of savings remains a challenge, underscoring the importance of a long-term financial plan and a portfolio that can generate inflation-adjusted returns.

For many investors, looking beyond cash and annual benefit adjustments remains important for overcoming inflation. A properly structured balanced portfolio of stocks and bonds can potentially offer more attractive real returns than cash alone. Investment-grade corporate bonds, for example, currently offer yields well above their long-run historical averages.



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