

Social Security Cost-of-Living Adjustments and Retirement Portfolio Strategy



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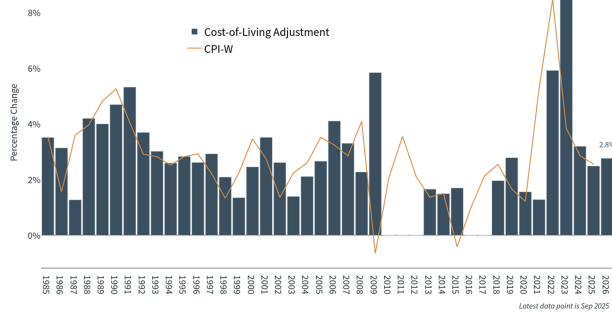
Ensuring that retirement savings can sustain a lengthy retirement period represents a critical objective for retirees and individuals nearing retirement. Inflation experienced over recent years has diminished the purchasing power of cash holdings, creating additional complexity. Currently, elevated price levels persist across essential spending categories that significantly impact retirees, such as healthcare, housing, and daily necessities.

While stocks and bonds offer strong positioning to address these challenges, some retirees exhibit risk aversion, and others question whether their portfolios and savings can adequately counter rising living costs. For investors with long-term horizons, comprehending inflation's impact on retirement income and implementing portfolio strategies to preserve purchasing power continues to hold paramount importance. What key considerations should retirees and retirement planners understand about today's financial landscape?

Experienced inflation often exceeds Social Security cost-of-living adjustments

Social Security Cost of Living Adjustment

Annual COLA. Current year estimate is based on third quarter Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)



Sources: Clearnomics,
Bureau of Labor Statistics,
Social Security Administration
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A 2.8% cost-of-living adjustment (COLA) for 2026 was recently announced by the Social Security Administration, reflecting ongoing inflation trends. Although increases provide assistance, the inflation measured by economists frequently diverges from individual day-to-day experiences. This adjustment will increase the average monthly benefit to \$2,064, representing merely a \$56 rise. This stands considerably lower than the 8.7% adjustment implemented in 2023, which marked the largest increase since 1981.

Retirees face a particular challenge because while inflation rates may decelerate, prices themselves typically

remain elevated rather than declining. The COLA calculation utilizes the CPI-W, a Consumer Price Index variant tracking prices for working-class households. This methodology fails to reflect that retirees frequently encounter different inflation rates compared to younger workers. Categories like healthcare costs, housing expenses, and other budget items carrying significant weight for retirees have frequently increased more rapidly than overall index measurements indicate.

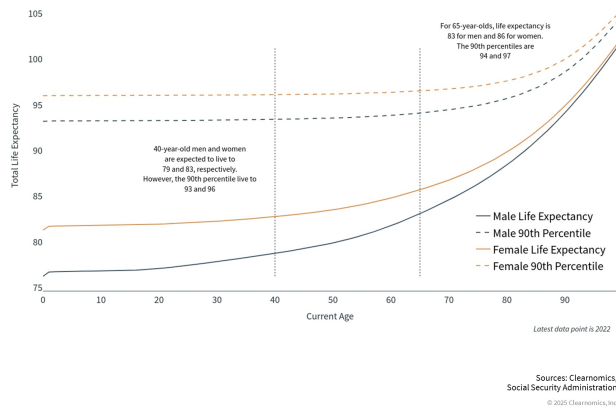
Consider that medical care services increased 3.9% annually, health insurance rose 4.2%, and home insurance climbed 7.5%. Food prices advanced 3.1% during this timeframe, but meat, poultry and fish experienced 6.0% increases. Full service restaurant costs also grew 4.2% more expensive.

Further complicating matters, Medicare Part B premiums may increase \$21.50 monthly in 2026, rising from \$185 to \$206.50 according to recent Medicare trustees' projections. Because these premiums are generally deducted directly from Social Security payments, this would consume approximately 38% of the average \$56 COLA increase, further diminishing retirees' purchasing power.

Extended life expectancies heighten the significance of portfolio growth potential

U.S. Life Expectancy

Average and 90th percentiles of life expectancy based on current age



Similar to how investment gains can compound through time, purchasing power losses also compound when portfolios fail to match inflation rates. This consideration carries increased weight today as retirees must prepare for potentially longer lifespans than previous generations experienced. Life expectancy therefore constitutes a crucial variable in comprehensive financial planning.

The most recent Social Security Administration statistics indicate that 40-year-old men and women have average life expectancies of 79 and 83 years, respectively. For individuals reaching 65 years of age, these life expectancies

extend to 83 and 86 years. These figures represent averages—individuals in the 90th percentile may live to 94 and 97 years, respectively.

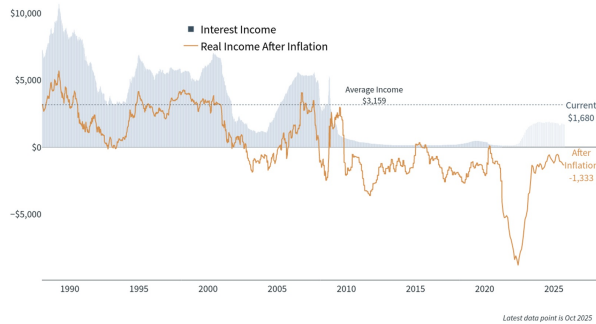
Although the prospect of enjoying extended, healthier retirement periods represents a remarkable advancement over the past century, the distinction between 20-year and 30-year or longer retirement periods carries substantial implications for portfolio design and withdrawal approaches. This consideration is often termed "longevity risk," representing an asymmetric challenge because depleting funds during retirement poses far greater concerns than bequeathing assets to beneficiaries or charitable organizations.

Consequently, while many investors emphasize income-producing investments like bonds in retirement planning, maintaining growth-oriented holdings like stocks remains equally important. Extended lifespans also generate financial complexities that enhance the value of sophisticated planning. Structuring portfolios for multi-decade retirement horizons while managing withdrawal rates and responding to evolving market conditions demands expertise extending well beyond simplified guidelines.

Declining short-term rates diminish cash account income

Interest Income on Cash

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



Sources: Clearnomics, FDIC
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Recent Consumer Price Index data, which experienced delays due to the government shutdown, carries implications for Federal Reserve policy and broader interest rate trends. With inflation moderating and employment markets softening, the Fed is anticipated to pursue gradual policy rate reductions. This transition, while beneficial for numerous economic sectors, will likely decrease interest income available from cash and money market accounts over time.

Retirees who have relied upon interest income from cash holdings during recent years may encounter challenges as interest rates return to lower levels. While

maintaining some cash reserves for immediate expenses and emergency funds remains prudent, excessive cash concentration means forfeiting the growth potential offered by stocks and attractive yields still available across many bond sectors.

The convergence of moderating yet persistent inflation with declining interest rates creates a demanding environment for conservative investors. Cash holdings lose purchasing power to inflation while generating declining interest as the Fed continues rate reductions. This dynamic amplifies the importance for retirees to maintain balanced portfolios incorporating growth-oriented assets like stocks, which have historically exceeded inflation over extended periods, alongside bonds providing income and stability.

The bottom line? Social Security COLA increases offer limited protection against inflation, making sole reliance difficult for retirees. Given increasing life expectancies and declining short-term rates, investors require portfolios delivering both income generation and growth potential.

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