Retirees Get a Raise as Inflation Persists

Social Security upped its monthly retirement benefit by the highest rate in 40 years, reflecting the high rate of inflation experienced this year. Where prices go from here will depend on several factors.

Social Security benefits for approximately 70 million Americans will increase 5.9% in 2022.

First the good news: Retirees will get a generous increase in their Social Security checks come January 2022. Social Security and Supplemental Security Income (SSI) benefits will increase by a whopping 5.9% in 2022, the biggest increase in 40 years.[1] That means that the average monthly retirement benefit of $1,565 will grow to $1,657. Although Social Security accounts for only about 30% of overall retirement income, millions of retirees -- over 10% -- rely on Social Security for 90% or more of their income. So the increase will be more than welcome for many.

The bad news is that the boost only adds to an already disturbing inflation picture. The Consumer Price Index (CPI) came in 5.4% higher in September compared with a year earlier, even faster than an already heady 5.3% pace through August, and above economists' forecasts. Rates have moderated since summer, but they remain stubbornly high. Prices for cars, fuel, rent, meat, and other groceries are noticeably higher, and many families are feeling the pinch.

Bottlenecks, Shortages, and Stimulus

The root cause of the rising prices is, of course, Covid. The pandemic has caused major disruptions in supply chains across the globe. From microchips to lumber, supply bottlenecks have led to shortages and price increases. Labor shortages have exacerbated the situation, particularly in leisure and hospitality businesses, resulting in wage increases -- many long overdue. Add to this the massive government stimulus packages passed since the spring of 2020, and you have the perfect inflationary storm.

The big question is, will it persist? Are we headed toward a 70s-style inflation cycle? Six months ago, the consensus answer to this question was an emphatic no. The uptick was widely expected to be short-lived, basically just a rebound from the price drops at the outset of the pandemic in the spring of 2020. Since then, however, supply chain problems have festered and structural issues such as labor shortages have surfaced. What's more, the price of oil has more than doubled over the past year, up 35% in just the past two months. Although most economists still believe that inflation will moderate in the coming months, many are less certain in their outlook. There is also the matter of the huge infrastructure and spending bills currently before Congress, which, if passed, will add to inflationary pressures.

For its part, the Federal Reserve is increasingly concerned that supply disruptions could last long enough to prompt consumers and businesses to *expect* higher prices, setting off an upward spiral of wage and cost increases. It has already signaled a slowdown in bond purchases, and could start raising interest rates if the inflation numbers remain elevated. But raising rates is not a popular move in Washington, on Wall Street, or on Main Street, so the Fed will likely proceed very cautiously, with definitive moves -- if any -- unlikely before year-end.

What You Can Do

In the face of rising prices, consumers do not have many options. You can be more selective in your purchases, charge more for your services if you're self-employed, or try to convince your employer to raise your salary to compensate. But in the end, if food, rent, and fuel cost more, you have to pay more.

For investors, the key to staying ahead of inflation is to seek investments that have the potential to deliver higher returns. Historically, stocks have shown the greatest ability to outpace inflation over time, although past performance is no guarantee of future results. There are also inflation-indexed bonds issued by the U.S. Treasury, but they generally make sense only if you expect a major uptick in inflation.

Talk to your financial professional to see what investing strategy might best suit your circumstances in an inflationary or rising rate environment.

[1]Social Security Administration, October 13, 2021.