RETIREMENT SECURITY

BLS Should Explore Ways to Improve the Accuracy, Timeliness, and Relevance of Its Cost-of-Living Measurements

Why GAO Did This Study

In the United States, federal retirement programs typically include cost-of-living adjustments based on a CPI that measures inflation for a subpopulation of workers. This includes Social Security, which provides benefits for more than 60 million older Americans, workers with disabilities, and their families. As the life expectancy of Americans continues to increase, more Americans will be subject to these adjustments, so it is critical for them to be accurate.

GAO was asked to review U.S. and international efforts to measure the cost of living for older populations. This report examines (1) key issues that BLS faces in measuring the cost of living for older Americans; and (2) the experiences of other countries that developed alternate methods of adjusting retirement benefits. GAO reviewed pertinent literature; assessed BLS efforts to measure inflation; conducted case studies in three countries—Australia, New Zealand, and the U.K.—with a variety of CPIs, which GAO selected based on expert referral and document review; and interviewed agency officials and experts.

What GAO Recommends

GAO recommends that BLS explore cost-efficient ways to evaluate the data currently used to produce subpopulation indexes, and explore the use of National Accounts data to produce more accurate, timely, and relevant CPIs. BLS agreed with the first recommendation but disagreed with the other. GAO continues to believe both recommendations are warranted, as discussed in the report.

What GAO Found

The U.S. Bureau of Labor Statistics (BLS) faces accuracy, timeliness, and relevancy challenges developing consumer price indexes (CPI) for subpopulations of blue-collar workers and older Americans. For example, the CPI for these workers is used to adjust federal retirement benefits for inflation, including Social Security. BLS has not evaluated the extent to which its existing data are adequate to produce CPIs that reflect what these subpopulations pay, where they shop, and what they purchase. Officials cite budgetary reasons for not having done this, but there may be cost-efficient methods for evaluating the adequacy of these data. Without an evaluation, federal retirement benefits could be subject to adjustment based on potentially inaccurate information. Additionally, BLS has made limited use of certain data already collected by the federal government— such as National Accounts data on U.S. production and consumption— that could be used to increase the accuracy, timeliness, and relevancy of CPI calculations that reflect the mix of goods and services consumers purchase. Without adequately exploring the potential of using these data, BLS may be missing an opportunity to improve its CPIs.

Benefits Adjusted to Maintain Purchasing Power for the Goods and Services Consumers Buy

Year 1 — Retirees receive federal retirement benefits

Costs for consumer goods and services increase with inflation

Year 2 — Retirement benefits are adjusted based on the Consumer Price Index
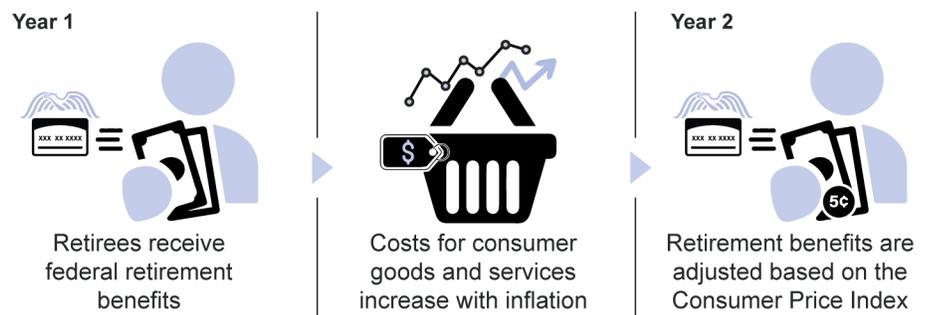
Source: GAO analysis of documents from the Social Security Administration and the Bureau of Labor Statistics. | GAO-20-422

Reports about the retirement systems in the 36 Organisation for Economic Co-operation and Development countries indicate that most use their primary measures of inflation to adjust government retirement benefits. In addition, all three of GAO's case study countries (Australia, New Zealand, and the United Kingdom, or U.K.) have a variety of CPIs, including for subpopulations, and they filled information gaps in their CPIs with National Accounts and other data. For example, Australia and the U.K. use National Accounts data annually to update their calculations of the mix of goods and services consumers buy, thereby making the CPIs more relevant and accurate. All three countries also collaborated with stakeholders—such as other agencies—to implement changes, for example by gathering input on the design of subpopulation CPIs.

_____ **United States Government Accountability Office**