



# Social Security's 2025 Cost-of-Living Adjustment

*While nice, it's critical to recognize the financial issues the program faces*

Social Security plays a vital role in the financial lives of millions of Americans, especially as they transition into retirement. Created in 1935, the program was initially designed to provide economic security for the elderly, disabled, and survivors of deceased workers. Today, it continues to be a cornerstone of retirement planning for many, offering a crucial source of income during their golden years. With over 70 million beneficiaries receiving payments in 2024, Social Security remains a key pillar of the nation's social safety net.

However, understanding how Social Security impacts retirement planning involves keeping up with changes to the program. Each year, the Social Security Administration (SSA) announces a cost-of-living adjustment (COLA), which is designed to help beneficiaries keep pace with inflation. On October 10, 2024, the SSA announced that the Social Security COLA for 2025 will be 2.5%. This modest increase follows the 3.2% adjustment for 2024 and is significantly lower than the unprecedented 8.7% raise beneficiaries received in 2023. While the average Social Security retirement payment will increase by approximately \$49 per month in 2025, this adjustment reflects a lower inflation environment compared to previous years.

## Social Security: A Lifeline for Millions

Social Security benefits provide financial relief for retirees, survivors, and disabled individuals. For retirees, these payments serve as a primary or supplementary source of income, depending on their financial situation and retirement planning. In 2024,

the average monthly Social Security retirement payment is approximately \$1,848, helping millions cover essential living expenses such as housing, food, and healthcare.

Beyond retirees, Social Security is also vital for disabled individuals who are unable to work and their families, as well as for surviving family members of deceased workers. The program distributes benefits across a wide demographic, with approximately 1 in 4 U.S. households receiving income from Social Security at some point.

## 2025 COLA and Its Impact

The 2025 COLA of 2.5% is a direct response to inflation over the past year. While the 2023 adjustment of 8.7% was one of the largest increases in decades, it was driven by the surging inflation following the pandemic and economic disruptions. The 2024 adjustment of 3.2% and the upcoming 2025 increase of 2.5% indicate an expectation of a stabilization of inflation rates, but they also underscore the variability of Social Security adjustments from year to year.

With the 2.5% COLA, the average Social Security retirement payment will increase by \$49 per month, making a difference for those who rely heavily on these payments for basic needs. However, this raise is still limited in its capacity to address rising healthcare costs and other living expenses that disproportionately impact retirees. As a result, retirees must consider other sources of income to fill the gaps in their retirement plans.

## The Challenges Facing Social Security

While Social Security provides essential benefits for many, its future faces significant challenges. According to the Social Security Trustees' report released in May 2024, the fund reserves that help pay Social Security benefits are expected to be depleted by 2035. This depletion means that, without reforms, the program would only be able to pay around 80% of scheduled benefits, relying on current payroll tax revenue rather than on its existing reserves.

This looming financial shortfall has raised concerns among policymakers and beneficiaries alike. Efforts to reform Social Security – whether through increased payroll taxes, benefit adjustments, or other legislative changes – are frequently discussed but remain contentious. If no action is taken, beneficiaries may see a reduction in payments in the not-so-distant future, affecting the retirement security of millions.

## Caution While Planning: What to Consider

Given the uncertainty surrounding Social Security's long-term financial stability, it is critical for those planning for retirement to approach their strategies cautiously. While Social Security provides an important safety net, future retirees may be wise not to rely solely on these benefits when planning their retirement income.

Financial advisors often recommend that individuals consider other sources of retirement income – such as personal savings, investments, pensions, or retirement accounts like 401(k)s or IRAs – when creating a comprehensive retirement plan. Assuming Social Security will continue to provide full benefits could be a risky strategy, especially in light of the projected depletion of reserves by 2035. Retirees who plan with the assumption that Social Security payments may be reduced or unavailable altogether could be better prepared for a more secure financial future.

Incorporating more conservative assumptions about Social Security into retirement planning offers two significant advantages. First, it encourages savers to maximize other sources of retirement income, such as employer-sponsored retirement accounts, personal investments, or even part-time work in retirement. Second, if Social Security benefits remain intact,

retirees will enjoy the "bonus" of additional income rather than facing a financial shortfall.

## Planning for a Secure Retirement

Social Security remains a critical component of the financial security of millions of Americans. While the recent COLA adjustments help beneficiaries maintain their purchasing power amid inflation, the program's long-term future is uncertain. The 2025 COLA of 2.5% provides a modest increase, but it is crucial for those planning for retirement to recognize the financial challenges the program faces and adjust their expectations accordingly.

Given the potential for reduced benefits after 2035, retirees should adopt a conservative approach to planning, ensuring that they have multiple income sources beyond Social Security. While the program continues to provide vital support today, prudent retirement planning will require careful consideration of its long-term viability and proactive financial preparation.

By planning cautiously, individuals can safeguard their retirement security, regardless of the uncertainties ahead.