Aetna Retirees Association, Inc
PO Box 280165
East Hartford, CT 06128
www.aetnaretirees.com

News

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Aetna COLA
Hits a Soft Spot!

Big Difference between Social Security And Company has Retirees Perplexed.

Last year, when Aetna announced that the Cost of Living Adjustment (COLA) in its employee pension plan would be 1.7%, while the Social Security Administration (SSA) was granting a 3.3% adjustment, our telephone lines lit up. Many members wanted to know how this could be possible. In a year when energy prices went haywire, the 3.3% adjustment seemed modest to say the least. But 1.7%?

Since the trust relationship between retirees and Aetna suffered a significant blow following the dental "takeaway", most inquiries about the discrepancy between the SSA and Aetna COLAs questioned whether Aetna had changed its formula for the year. They wanted to know just exactly how Aetna calculates the adjustment and applies it. Was this something new? Was the company doing something different?

Your ARA went to work and did some digging and here's what we found. First, both Aetna and the Social Security Administration use the same data base for the calculations, but they use a slightly different time period. The data base is the Consumer Price Index for Urban Wage Earners and Clerical Workers – called CPI-W.

Social Security measures the changes from the third quarter of one year against the third quarter of the next. The increase in the CPI-W index, from July, August and September, 2005 to July, August and September, 2006 was 3.3%. Here's the actual calculation from the SSA web site:

Month	CPI-W for	
	2005	2006
July	191.0	199.2
August	192.1	199.6
September	195.0	198.4
Total	578.1	597.2
Average	192.7	199.1

The calculation then is the difference between the 2005 average (192.7) and the 2006 average (199.1) which is 6.4 divided by 192.7 = 3.3%.

Aetna, on the other hand, looks at just one 12-month period from September to September. Because there is some month-to-month volatility, the two methods will usually produce different results and in this case it does. The Aetna calculation compares September, 2005 (195.0) to September, 2006 (198.4) which produces a differential of 3.4. When the differential is divided by the September, 2005 base of 195 the result is 1.7%.

Looking at the Historic Trend

The first question we had to ask was, is this something new? Is this a change, or has it been in place for a long time. The answer is nothing new! Neither Social Security nor Aetna has changed the COLA calculation.

Our next question was, is this year's difference an anomaly or is it a trend? To determine this, we took a look at the past 13 years, 1995 to 2007. We compared the Social Security COLA with the Aetna calculation and with the actual Aetna COLA which is capped at 3%. Here are the numbers we developed:

YEAR	SSA	AETNA CALCULATION	AETNA ACTUAL
1995	**2.8**	**3.0**	**3.0**
1996	**2.6**	**2.5**	**2.5**
1997	**2.9**	**3.0**	**3.0**
1998	**2.1**	**2.1**	**2.1**
1999	**1.3**	**1.2**	**1.2**
2000	**2.5**	**2.8**	**2.8**
2001	**3.5**	**3.5**	**3.0**
2002	**2.6**	**2.6**	**2.6**
2003	**1.4**	**1.3**	**1.3**
2004	**2.1**	**2.3**	**2.3**
2005	**2.7**	**2.4**	**2.4**
2006	**4.1**	**5.2**	**3.0**
2007	**3.3**	**1.7**	**1.7**
Totals	**33.9**	**33.6**	**30.9**
Average	**2.61**	**2.58**	**2.38**

As you can see, the differences between the two methods of calculation produce very little difference over a period of time. In this 13 year period, the difference is three tenths of one percent. Thanks to a period of low inflation, even the cap has not posed a major problem. The loss from the cap has been a total of 3%.

In three of the years studied, the two calculations produced an identical result. In five, the Aetna calculation produced a higher number and in five, the SSA number was higher.

As noted, there is considerable volatility in the CPI from month to month. The SSA calculation tends to minimize some of that volatility by averaging three months. As can be seen by the chart, above, sometimes this works to the benefit of the retiree and sometimes not. Over a longer period it should average out.

To sum up, the Aetna did not change its formula for calculating the COLA. The difference between Aetna's COLA and SSA's COLA was an anomaly this year when compared to previous years. When looked at over a period of time, the Aetna COLA calculation is virtually identical to that for SSA. Even the Cap on the Aetna COLA has had a relatively light impact on us.

Happy New Year

CONTACT ARA*!*

We welcome your comments, questions, ideas and letters to the editor. See mail and website addresses on page 1.

Dave Smith, Editor