

Cost-of-living Clauses: Trends and Current Characteristics *BY JANICE M. DEVINE*

The fizz seems to have gone out of COLA's—cost of living adjustment clauses, that is. Compared with a peak of 61 percent in 1976, only 22 percent of workers under major collective bargaining contracts in private industry were covered by a COLA provision at the end of 1995. Additionally, in recent years average wage gains generated by COLA's have been at or near record lows.

The Bureau of Labor Statistics defines COLA clauses as contractual provisions in collective bargaining agreements that automatically tie wage changes to changes in the Consumer Price Index (CPI).¹ COLA clauses specify a payment formula, the CPI index, the review dates to be used to determine the amount of any payments, and the dates on which payments are scheduled. This article presents a review of COLA coverage and COLA payments in major private industry collective bargaining agreements (those covering 1,000 or more workers) and summarizes the major characteristics of COLA clauses still in effect at the end of 1995.

Trends in coverage

While such formal arrangements never were widespread throughout the economy, COLA's became quite popular among the negotiators of

major agreements. In 1966, the first year for which the Bureau measured the number of workers covered by COLA provisions in all major private industry collective bargaining contracts, the proportion of workers covered was 22 percent. COLA coverage grew fairly steadily to around the 60 percent level by 1975, where it remained through 1982.² Subsequently, the proportion of workers covered by COLA provisions declined almost continuously through 1995, when it was again 22 percent.³ (See table 1.) The decline in the proportion of workers with COLA's was accompanied by a decline in the number of workers with such provisions, from a high of 6 million workers in 1975 and 1976 to a record low of 1.2 million in 1995.

The decline in coverage was less pronounced in the manufacturing sector, where COLA's were more prevalent, than in nonmanufacturing industries. At their peak in 1976, COLA clauses covered 71 percent of workers under major collective

bargaining agreements in manufacturing industries and 54 percent in nonmanufacturing ones. (See table 2.) By the end of 1995, the proportions were 58 and 7 percent for manufacturing and nonmanufacturing, respectively, with nearly all industries having lost coverage over the last two decades. In six industries or industry groups—tobacco, textiles, apparel, instruments and related products, miscellaneous manufacturing, and services excluding health care—the proportion of workers with COLA provisions was higher at the end of 1995 than it was 20 years earlier.⁴ Seven industries had COLA coverage above 50 percent by the end of 1995, compared with 20 in 1976.

A combination of factors have contributed to the decline in coverage. In the mid-1980s, Wallace Hendricks and Lawrence Kahn suggested that COLA coverage would remain relatively stable until workers were convinced that inflation was under control.⁵ Now that seems to have occurred. With

Janice M. Devine is an economist in the Office of Safety, Health and Working Conditions, Bureau of Labor Statistics. Formerly, she was the Project Director, Collective Bargaining Statistics in Private Industry. Telephone (202) 606-6167.

relatively moderate increases in the CPI in recent years, labor negotiators seem to have been willing to forego COLA's, perhaps to gain or maintain benefits in more pressing areas such as job security, health care, and pensions.

In addition, the payments generated by COLA clauses have been low for several years, undoubtedly contributing to workers' willingness to eliminate these provisions. Increasing restrictions on COLA clauses, noted by Hendricks and Kahn as beginning to surface in the mid-1980s, have affected the benefits workers

received from their COLA clauses.⁶ Constraints include relatively high "trigger" levels for changes in the CPI that must be exceeded before payments begin, caps that limit the amount of payments generated by the COLA formula, diversions of COLA payments to help pay for other benefits, and the deferral of payments from the scheduled date to a later period. Workers' returns on their COLA clauses also have diminished because of smaller increases in the CPI.

While much of the decline in COLA coverage was due to bargain-ers' decisions to drop their COLA

provisions, employment losses in industries where COLA clauses tended to exist and in specific contracts with COLA clauses also contributed. For example, while total employment in major collective bargaining agreements declined 35 percent between 1982, the last year in which COLA coverage was 60 percent, and 1995, the employment loss in the more COLA-prevalent manufacturing sector was 54 percent during the same period.

Settlements containing COLA clauses

COLA's have generally been

Table 1. Workers under major collective bargaining agreements with COLA clauses, private industry, 1966-95

(Workers in millions)

Year ¹	All workers	Workers with COLA coverage		Percent change in the CPI-W ²
	Number	Number	Percent	
1966	10.0	2.2	22	3.4
1967	10.6	2.5	24	3.0
1968	10.6	2.7	25	4.7
1969	10.8	2.8	26	6.2
1970	10.8	3.0	28	5.5
1971	10.6	4.3	41	3.3
1972	10.4	4.1	39	3.4
1973	10.2	4.0	39	8.9
1974	10.3	5.3	51	12.3
1975	10.1	6.0	59	6.9
1976	9.8	6.0	61	4.8
1977	9.6	5.8	60	6.8
1978	9.5	5.6	59	9.0
1979	9.3	5.4	58	13.4
1980	9.1	5.3	58	12.6
1981	8.8	5.0	57	8.6
1982	8.3	5.0	60	3.8
1983	7.7	4.4	57	3.3
1984	7.3	4.1	57	3.6
1985	7.0	3.4	49	3.6
1986	6.5	2.6	40	0.6
1987	6.3	2.4	38	4.5
1988	6.0	2.4	40	4.4
1989	6.0	2.4	39	4.5
1990	5.9	2.3	38	6.1
1991	5.6	1.7	30	2.8
1992	5.5	1.5	28	2.9
1993	5.5	1.3	24	2.5
1994	5.4	1.3	24	2.7
1995	5.4	1.2	22	2.5

¹ Data are as of December 31 of each year.

² December-to-December change in the Consumer

Price Index for Urban Wage Earners and Clerical Workers.

Table 2. Prevalence of COLA clauses in major collective bargaining agreements covering 1,000 or more workers, 1976 and 1995

(Workers in thousands)

Industry	1976			1995		
	SIC Code ¹	All workers	Percent of workers with COLA provisions	SIC Code ²	All workers	Percent of workers with COLA provisions
All private industries		9,811	61		5,366	22
Manufacturing		4,321	71		1,593	58
Ordnance and accessories	19	33	74	NA	NA	NA
Food and kindred products	20	363	38	20	151	4
Tobacco products	21	28	95	21	10	100
Textile mill products	22	49	18	22	18	20
Apparel and other textile products	23	518	40	23	148	56
Lumber and wood products, except furniture	24	81	0	24	16	0
Furniture and fixtures	25	28	44	25	3	0
Paper and allied products	26	109	0	26	51	0
Printing and publishing	27	61	68	27	21	12
Chemicals and allied products	28	107	32	28	34	17
Petroleum and coal products	29	51	0	29	17	0
Rubber and miscellaneous plastics products	30	96	89	30	45	85
Leather and leather products	31	62	13	31	6	0
Stone, clay, and glass products	32	93	83	32	31	26
Primary metal industries	33	631	95	33	124	18
Fabricated metal products	34	94	75	34	18	32
Industrial machinery and equipment	35	306	89	35	80	80
Electronic and other electric equipment	36	476	90	36	166	54
Transportation equipment	37	1,078	94	37	638	91
Instruments and related products	38	35	47	38	11	64
Miscellaneous manufacturing industries	39	20	21	39	5	40
Nonmanufacturing		5,490	54		3,774	7
Mining	10-12	173	99	10-12	80	0
Construction	15-17	1,647	10	15-17	987	(³)
Railroads	40	472	100	40	217	0
Local and urban transit	41	116	97	41	6	0
Trucking and warehousing	42	554	98	42	285	4
Water transportation	44	93	24	44	39	23
Transportation by air	45	157	59	45	215	0
Transportation services	47	2	100	47	-	-
Communications	48	764	94	48	438	24
Electric, gas, and sanitary services	49	223	21	49	197	7
Wholesale trade	50-51	75	59	50-51	8	14
Retail trade, except food stores	53,55-59	196	17	53,55-59	114	0
Food stores	54	565	71	54	598	1
Finance, insurance, and real estate	60-65	78	66	60-65	131	49
Services, except health services	70-79;82	226	8	70-79;82;89	279	11
Health services	80	102	31	80	181	1

¹ Standard Industrial Classification Manual, 1967 edition.

² Standard Industrial Classification Manual, 1987 edition.

³ More than 0 and less than 0.5 percent.

NA = Not applicable.

NOTE: Due to rounding, sums of individual items may not equal totals. Dashes indicate the absence of a major collective bargaining agreement.

	All settlements	Settlements:	
		with COLA's	without COLA's
1985	30.5	35.3	28.4
1986	32.0	34.0	31.1
1987	33.2	35.5	31.2
1988	33.3	35.3	32.1
1989	35.1	36.8	34.5
1990	35.3	35.6	34.8
1991	35.6	38.2	34.8
1992	34.5	35.5	34.3
1993	35.8	36.5	35.5
1994	37.7	39.6	37.2
1995	38.7	42.2	38.3

viewed as a means to help protect the purchasing power of wages from the eroding effects of price increases over the term of a collective bargaining contract. Therefore, it is not surprising that, as the adjoining tabulation on average contract duration in months for major settlements indicates, the presence of a COLA clause seemed to be associated with longer contracts.

The existence of COLA clauses also seems to influence the specified or guaranteed change in wage rates provided by collective bargaining settlements, particularly in the manufacturing sector. Specified average annual wage gains over the contract life tended to be lower in settlements with COLA clauses compared to those without such provisions. (See table 3.) The lower

wage changes in settlements with COLA's are understandable since the COLA clauses were expected to generate additional wage changes during the contract term. In fact, when contracts were reviewed retrospectively for the actual amount of wage changes workers received, including COLA payments, the average gains under contracts with COLA clauses generally were larger than those under contracts without COLA provisions. (See table 4.)

COLA payments

Generally following the fluctuations in the rate of inflation, the average wage changes generated by COLA clauses for workers who received such payments ranged from a low of 1 percent in 1986, when some clauses generated decreases in COLA payments, to a high of 7.7 percent in 1980. (See table 5.) From 1991 through 1995, the average annual change was 2 percent or less. When compared with movements in the CPI used to calculate the COLA payments, wage changes from COLA's have generated "rates of return" ranging from a high of 70 percent in 1982 to a low of 43 percent in 1987.

In any year, the average wage change from COLA's under all major contracts is computed by weighting the percent change in wages from COLA's for contracts

with such changes by the number of workers covered by the contract, and dividing the total of the worker-weighted changes for these contracts by the number of workers under all major contracts. Therefore, the average change under all major contracts is affected by the size of the wage changes and the number of workers receiving the changes. Reflecting the modest COLA increases and the relatively small number of workers receiving these payments, the annual average wage change from COLA's for all major contracts (those with and those without COLA's) was an increase of 0.2 percent in 1993 through 1995, matching the record low that existed in 1986.

Wage changes from COLA's are combined with wage changes from settlements reached in the year and wage changes from contracts reached in prior years to determine the average change in wage rates from all sources. The contribution of these various components (current settlement changes, deferred changes, and COLA's) can vary from year to year. At their high, from 1978 to 1981, COLA's accounted for about 30 percent of the average wage change. (See chart 1.) In contrast, COLA payments contributed less than 10 percent toward the average wage change during the 1968-71 period, 1986, and again each year from 1993 through 1995.

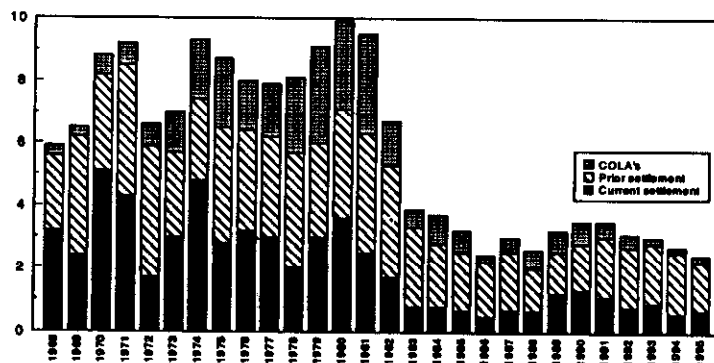
Characteristics of COLA's in 1995

When including a COLA clause in a contract, negotiators must specify the components of the clause that will affect the COLA payments, such as the formula, whether or not to have a cap on the payment amount, the CPI index to use, and the timing of reviews. At the end of 1995, the most prevalent formula, covering 42 percent of the 1.2 million workers with COLA's, called for a 1-cent change in wages for each 0.26 point change in the CPI. About 390,000 of these workers were covered by the contracts between the Big Three auto manufacturers and the United Auto Workers. The next most prevalent formula, affecting about 11 percent of the workers, was 1 cent for each 0.3 point change in the CPI. A wide variety of other formulas covered the remaining workers. Only 1 percent of the workers had a clause providing a 1 percent wage change for each 1-percent change in the CPI.

Sixty percent of the workers with COLA's were under clauses with quarterly reviews, 25 percent had annual reviews, and approximately 10 percent had semiannual reviews. The remaining 6 percent had either monthly reviews or some other review period.

About 17 percent of the workers had caps that limited the payout amount, while only 4 percent had minimum payments guaranteed. Another 1 percent were covered by clauses that specified both a minimum and maximum COLA payment. The remaining 79 percent of workers with COLA clauses did not have such provisions. However, many workers, including some with caps, were covered by clauses that provided payments only after the CPI increased by a specified or trigger amount. In some cases, this amount matched the deferred wage change, but in many cases it reflected an unexpectedly large increase in prices.⁷ While the number of workers with such

Chart 1. Average changes in wage rates and the contribution of the various components in all major collective bargaining agreements, private industry, 1968-95



provisions is not known, the fact that one-fifth of those workers with COLA reviews in 1995 did not receive a COLA payments because the CPI did not rise enough indicates the importance of this type of restriction.

Clauses for about 91 percent of workers covered by COLA's based payments on the U.S. city average CPI for Urban Wage Earners and Clerical Workers (CPI-W). Another 1 percent of workers were covered by formulas that used the U.S. city average for All Urban Consumers

(CPI-U), and the remainder used a variety of specific city indexes.

COLA clauses have generally been concentrated in contracts with relatively large numbers of workers. In 1995, the 22 percent of the workers under major contracts with COLA's were in 169 contracts, about 14 percent of the 1,212 major contracts in private industry. In addition, as the following tabulation indicates, five unions accounted for 70 percent of the workers covered by COLA clauses.

Auto Workers	496,000
Machinists	90,000
Needletrades Workers	90,000
Service Workers	89,000
Steelworkers	61,000
All others	349,000

COLA clauses themselves have not changed dramatically over the past 20 years, however, their yields and their popularity have declined significantly. Only time will tell whether circumstances will change sufficiently to bring about a resurgence of this once prominent feature of major collective bargaining contracts.

Table 3. Average annual changes in wage rates over the contract life in major collective bargaining settlements with and without COLA's, private industry, 1971-95

(In percent)

Year	Average specified changes in wage rates over the contract life ¹					
	All industries		Manufacturing		Nonmanufacturing	
	Settlements with COLA's	Settlements without COLA's	Settlements with COLA's	Settlements without COLA's	Settlements with COLA's	Settlements without COLA's
1971	7.1	9.2	7.3	7.3	6.8	10.1
1972	5.7	6.5	5.4	5.7	6.9	6.9
1973	4.9	5.3	4.2	5.9	6.3	5.1
1974	6.1	9.1	5.6	8.0	6.6	9.3
1975	7.1	8.3	5.8	8.9	7.4	8.0
1976	5.7	7.3	5.2	8.0	6.6	7.0
1977	5.0	6.9	4.6	7.9	5.5	6.6
1978	5.3	7.1	5.4	7.6	5.3	6.9
1979	4.6	8.0	4.0	8.1	5.5	8.0
1980	5.0	10.3	4.4	8.9	5.7	10.8
1981	5.5	8.8	4.8	6.6	5.8	9.9
1982	2.1	6.6	2.1	5.8	2.1	6.9
1983	2.0	3.7	1.4	3.9	2.6	3.7
1984	1.8	2.7	1.0	3.3	4.8	2.6
1985	2.5	2.8	2.1	1.6	3.6	3.3
1986	1.7	1.8	.9	-2	2.1	2.4
1987	1.5	2.5	1.0	2.1	2.7	2.7
1988	1.8	2.8	1.8	2.6	1.7	2.8
1989	2.8	3.5	3.5	3.0	2.4	3.7
1990	1.9	4.0	1.3	3.7	3.8	4.1
1991	3.0	3.3	2.7	3.7	4.1	3.2
1992	2.5	3.1	1.9	3.2	3.0	3.0
1993	1.4	2.5	1.3	2.1	2.3	2.8
1994	2.5	2.3	2.5	2.1	2.6	2.3
1995	1.5	2.6	1.4	2.5	2.0	2.6

¹ Changes under settlements reached in the year expressed as an annual rate over the life of the contract. All measures exclude

potential changes from COLA clauses, although guaranteed COLA payments are included.

Table 4. Average annual changes in wage rates under prior contracts for major private industry collective bargaining contracts replaced in 1986-95
(In percent)

Year replacement contract was negotiated	Average annual changes in wage rates under prior contracts ¹						
	All contracts			Contracts with COLA clauses			Contracts without COLA clauses
	Specified changes	COLA changes	Total changes	Specified changes	COLA changes	Total changes	Specified (total) changes
1986	3.2	0.9	4.0	2.7	1.6	4.2	3.7
1987	2.0	.7	2.6	1.5	1.4	2.8	2.4
1988	2.6	.4	3.0	2.2	1.2	3.4	2.8
1989	2.4	.2	2.6	1.8	1.0	2.8	2.6
1990	2.0	1.2	3.2	1.2	3.0	4.1	2.6
1991	2.7	.5	3.2	2.4	1.0	3.4	3.0
1992	3.4	.3	3.6	2.6	1.1	3.6	3.7
1993	2.9	.8	3.6	2.1	1.8	3.9	3.5
1994	3.0	.1	3.1	3.3	.5	3.8	2.9
1995	3.0	.2	3.1	2.5	.9	3.4	3.0

¹ For example, for settlements negotiated in 1986, prior contracts with COLA clauses provided specified annual wage changes averaging 2.7 percent; annual wage changes from COLA's averaging 1.6 percent, and total annual wage changes, including those from COLA's, averaging 4.2 percent.

Table 5. Average changes in wages rates from COLA's in major collective bargaining agreements, private industry, 1968-95

Year	Average change in wage rates from COLA's for—				Percent rate of return on the CPI ¹
	All workers under major agreements		Workers with COLA changes		
	Percent change	Cents per hour	Percent change	Cents per hour	
1968	0.3	1.2	1.6	5.5	NA
1969 .....	.3	1.3	1.6	6.0	NA
1970 .....	.6	2.5	3.7	14.6	NA
1971 .....	.7	2.8	3.1	13.4	NA
1972 .....	.7	3.1	2.0	8.8	NA
1973	1.3	6.1	4.1	19.6	NA
1974	1.9	10.1	5.8	30.8	NA
1975	2.2	12.9	4.8	27.4	NA
1976	1.6	10.1	3.5	22.1	NA
1977	1.7	11.8	3.9	27.3	NA
1978	2.4	18.1	5.0	37.4	NA
1979	3.1	25.0	6.8	55.3	NA
1980	2.8	26.5	7.7	71.8	NA
1981	3.2	32.5	6.1	62.2	67
1982	1.4	15.9	3.1	34.7	70
1983 .....	.6	7.4	2.1	24.6	53
1984 .....	.9	11.3	2.7	32.9	50
1985 .....	.7	9.2	2.2	27.7	58
1986 .....	.2	2.7	1.0	12.6	51
1987 .....	.5	6.8	2.6	33.6	43
1988 .....	.6	7.9	2.7	37.5	47
1989 .....	.7	10.2	3.3	47.6	61
1990 .....	.7	9.6	2.7	40.5	48
1991 .....	.5	7.5	2.0	32.0	56
1992 .....	.4	6.4	2.0	34.3	62
1993 .....	.2	3.6	1.3	22.6	48
1994 .....	.2	4.3	1.7	30.7	46
1995 .....	.2	4.2	1.7	31.3	55

¹ The average COLA change was compared to the CPI change during the period used in calculating the amount of COLA changes.

NA = not available.