



Non-Foreign Area Cost of Living Allowance (COLA) Transformation

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Working for America

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT



A vertical strip on the left side of the slide shows a portion of the American flag, including the stars and stripes.

How Are COLA & Locality Pay Different?

- Cost-of-Living Allowance (COLA) compensates Federal employees for differences in prices of goods and services in each COLA area compared to Washington, DC
- Locality pay compensates Federal employees for the differences in the cost of labor in each locality pay area compared to the General Schedule



COLA Overview

- Enacted in 1948
- Paid to about 52,000 Federal white-collar and U.S. Postal Service employees
- More than 14,000 are in Puerto Rico
- Compares living costs between Washington, DC, and each COLA area
- Can go up, but may not exceed 25 percent
- Can go down, limited to 1 percent per year
- Not subject to Federal income tax
- Not creditable for retirement

COLA Areas and Rates

Area	Rate	Index
Anchorage, AK	23%	10%
Fairbanks, AK	23%	19%
Juneau, AK	23%	20%
Rest of Alaska	25%	33%
City and County of Honolulu, HI (Proposed)	24%	21%
Maui County, HI (Proposed)	24%	24%
Kauai County, HI (Proposed)	24%	18%
Hawaii County, HI (Proposed)	17%	12%
Guam/Northern Mariana Islands (Proposed)	24%	20%
U.S. Virgin Islands	25%	38%
Puerto Rico	14%	7%*

COLA Employment (March 2009)

Agency	Alaska	Hawaii	Guam	Puerto Rico	USVI	Total
Army	2,320	4,485	16	819	87	7,727
AF	885	1,226	246	185	0	2,542
Navy	20	5,668	772	82	0	6,542
Other Defense	229	927	540	541	0	2,237
Total Defense	3,454	12,306	1,574	1,627	87	19,048
Agriculture	874	812	90	580	10	2,366
Commerce	569	365	25	132	0	1,091
HHS	343	155	1	173	4	676
Homeland Security	985	2,035	388	2,022	421	5,851
HUD	37	30	1	73	0	141
Interior	2,178	491	33	125	78	2,905
Justice	191	472	76	775	81	1,595
Labor	22	25	3	32	0	82
Transportation	1,249	391	51	186	13	1,890
Treasury	88	145	0	656	6	895
VA	588	719	16	3,346	12	4,681
Other Civilian Agencies	207	291	30	571	23	1,122
Total Civilian	7,331	5,931	714	8,671	648	23,295
Total Non-Postal	10,785	18,237	2,288	10,298	735	42,343
US Postal Service (Estimate)	2,400	2,900	160	3,900	300	9,660
Grand Total	13,185	21,137	2,448	14,198	1,035	52,003



COLA Affects Retirement, Pay

- Retirement benefits for COLA recipients are lower than for locality pay recipients
 - COLA is not creditable for retirement – locality pay is
 - Disparity raises equity concerns, especially for employees near retirement, and may cause staffing problems
- COLA is capped at 25 percent, locality pay is not capped
- Base pay in COLA areas is not keeping pace with base pay in locality pay areas, therefore—
 - Overtime rates are lower
 - Premium pay rates are lower
 - Life insurance amounts are lower



Why Change Now?

- Congress and the Administration have outlined a more uniform approach and simplified pay structure for Federal employees
- Congress and the Administration want equity in pension benefits
- Current law results in minimal increases, or even decreases, in pay and allowances in non-foreign areas although labor costs increase annually
- Cost of past, present and future litigation
- Improve recruitment and retention of employees in non-foreign areas



Key Elements of Legislation

- Discontinue COLA surveys
- For non-US Postal Service employees—
 - Freeze COLA rates as of date of enactment
 - Extend locality pay to nonforeign areas
 - Offset COLA rates by 65 percent of locality pay percentage to reduce impact on take home pay
 - Abolish COLA payments once rates reach zero
- For most US Postal Service employees COLA rates would be frozen but in the future employees would receive the higher of the frozen COLA or the locality pay rate for their area.



Key Elements (continued)

- Legislation provides three-year locality pay “phase-in”
- In first year, extend locality pay to all areas based on RUS rate (currently 13.86 percent) to give BLS, Federal Salary Council, and President’s Pay Agent time to properly implement new locality pay areas
- Extend locality pay to all non-foreign areas, including areas where a post differential is authorized, like American Samoa
- Employees near retirement may elect to have COLA count for retirement during the phase in period.



Expected Impact of Legislation

Assuming Federal Salary Council, Pay Agent Action—

- Alaska and Hawaii areas are likely to become individual locality pay areas
- All other non-foreign COLA areas are likely to be in the Rest of U.S. pay area
- How soon locality pay would overtake COLA would vary by COLA area



How Does This Affect Me?

- With locality pay, retirement pay increases two ways
 - Annuity increases by locality pay in your high-3
 - TSP increases by Government, employee contribution
- What does this cost?
 - You would pay same percentage on locality pay that you pay on your base pay for retirement, social security contributions
 - You would pay Federal income tax on locality pay, just like on your base pay, but the 65 percent offset mitigates tax



How Does This Affect Me? (continued)

- What is my return on investment?
 - For 20-year CSRS employee, first 24 to 30 months of annuity approximates employee contributions
 - For 20-year FERS employee, first 6 to 8 months of annuity approximates employee contributions
 - Most employees working now in COLA areas would not make retirement contributions on locality pay as long as on their base salaries, so the payback for contributions made on locality pay would be faster

How Will It Work?

The chart below shows what would happen in year one:

	Dec 2009	No Locality Pay Jan 2010	Locality Pay Jan 2010
Base Pay	\$100.00	\$100.00	\$100.00
2.5% General Increase		2.50	\$2.50
COLA	14%, 14.00	14%, 14.35	11%, \$11.28
Locality	0%, 0.00	0%, 0.00	4.62%, \$4.74
Total	\$114.00	\$116.85	\$118.52
(15% Tax)	(\$15.00)	(15.38)	(\$16.09)
(8.45% Retirement)	(\$8.45)	(8.66)	(\$9.06)
Net Pay	\$90.55	\$92.81	\$93.37
Effective Increase		2.50%	3.11%



Summary

The legislation would:

- Phase out COLA in favor of the same system as other GS employees
- Protect employee take-home pay in all non-foreign COLA areas, including pay of USPS employees
- Provide greater retirement benefits
- Prevent further COLA rate reductions
- Result in higher pay for employees
- Provide equity in retirement benefits for employees in the non-foreign areas

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Questions?
