

Office of Personnel Management
Retirement and Insurance Group



1920



1954



1959



1986

Benefits Administration Letter

*Number:*96-710

Date: November 20, 1996

**SUBJECT: Cost-of-Living Adjustment of Annuities;
New Variable Interest Rate**

This notice provides information relative to cost-of-living adjustments of annuities, the variable interest rate for 1997, and other annual figures affecting retirement benefits.

1. CSRS COST-OF-LIVING ADJUSTMENTS

a. Summary. Annuitants who retired under the Civil Service Retirement System (CSRS) will get a cost-of-living adjustment (COLA) in their January 2, 1997, annuity payments. (See the CSRS and FERS Handbook for Personnel and Payroll Offices, Chapter 2, subchapter 2A.) The December 1, 1996, increase, to be paid in January, will be 2.9 percent for all annuitants retired under CSRS, except those who have not been on the annuity roll for a full year. The 2.9 percent increase was derived by computing the percentage increase in the Consumer Price Index (CPI) for urban wage earners and clerical workers from the third quarter average of 1995 to the third quarter average of 1996.

b. Proration of Retiree's First COLA. By law, a retiree's first COLA must be prorated. Retirees will get one-twelfth of the applicable cost-of-living increase for each month they were on the annuity roll before December 1, 1996, not to exceed 12 months. To get the full December 1, 1996, increase, a retiree's annuity must have commenced no later than December 31, 1995. To get one-twelfth of the December 1, 1996, increase, the annuity must have commenced no later than November 30, 1996.

c. The following table shows the actual prorated percentage increases that apply to CSRS retirees according to the month in which the annuity began to accrue:

<u>Annuity Began</u>	<u>Amount of Increase</u>
December 1995 or earlier -	2.9%
January 1996 ---	2.7%
February 1996 --	2.4%
March 1996 -----	2.2%
April 1996 -----	1.9%
May 1996 -----	1.7%
June 1996 -----	1.5%
July 1996 -----	1.2%
August 1996 ----	1.0%
September 1996 -	0.7%
October 1996 ---	0.5%
November 1996 -	0.2%

2. FERS COST-OF-LIVING ADJUSTMENTS

a. Summary. Eligible annuitants who retired under the Federal Employees Retirement System (FERS) will get a COLA in their January 2, 1997, annuity payments. (See CSRS and FERS Handbook for Personnel and Payroll Offices, Chapter 2, subchapter 2B.) The full December 1, 1996, increase will be 2.0 percent. When the CPI increase is less than 3 percent, the FERS COLA is the CPI increase, or 2 percent, whichever is less. Since the increase last year was 2.9 percent, as explained in item 1a, above, the full FERS COLA is 2.0 percent.

b. Proration of Retiree's First COLA. For FERS retirees who have not been on the annuity roll for a full year, COLA's will be prorated as explained in item 1b, above. The following table shows the actual prorated percentage increase that applies to FERS retirees according to the month in which the annuity began to accrue:

<u>Annuity Began</u>	<u>Amount of Increase</u>
December 1995 or earlier-	2.0%
January 1996 ---	1.8%
February 1996 --	1.7%
March 1996 -----	1.5%
April 1996 -----	1.3%
May 1996 -----	1.2%
June 1996 -----	1.0%
July 1996 -----	0.8%
August 1996 ----	0.7%
September 1996 -	0.5%
October 1996 ---	0.3%
November 1996 -	0.2%

c. FERS Annuitants Who Are Under Age 62. FERS COLA's apply to retirees who were age 62 as of December 1, 1996 as well as --

- disability annuitants (see item d, below),
- military reserve technicians whose separation from technician service results from loss of military membership on account of disability after attaining age 50 and completing 25 years of service, or
- employees who retired under the special provisions for law enforcement officers, firefighters, or air traffic controllers.

d. Disability Annuitants. COLA's are payable to disability annuitants without regard to their age. However, COLA's are not payable on FERS disability annuities during the annuitant's first year on the roll if the annuity rate is based on 60 percent of average salary. COLA's are payable, however, during the first year if the annuitant's rate is based on an earned benefit or the annuity is redetermined because the annuitant has reached age 62.

e. Survivor Annuitants. Spouse, former spouse, insurable interest, and child survivor annuitants under FERS are entitled to COLA's regardless of age. After survivor annuities (other than children's annuities, which are based on CSRS COLA rules) commence, they are subject to FERS COLA rules, even if they are based on an annuity that includes a CSRS component.

The supplementary annuity paid to certain surviving spouses and former spouses is also subject to FERS COLA's.

f. Employee Annuitants with a CSRS Component. Certain FERS retirees are entitled to a CSRS annuity computation for a portion of their annuity. This CSRS component is subject to CSRS COLA rules. The full CSRS COLA effective December 1, 1996, is 2.9 percent. The CSRS COLA rules also provide for proration of the increase depending on the number of months the annuity was payable before the effective date of the increase. CSRS COLA rules do not require the annuitant to be age 62. Therefore, the CSRS portion of the annuity may increase even though no FERS increase is payable.

g. FERS Annuity Supplement. The retiree annuity supplement, if any, is not increased. COLA's apply only to a retiree's basic annuity.

h. COLA Increase on the Basic Employee Death Benefit. Under FERS, a basic lump-sum benefit is payable to the qualifying surviving spouse (or former spouse) of a deceased employee with at least 18 months creditable service. The law provides that this lump-sum benefit is an amount equal to 50 percent of the employee's final annual pay (or average pay, if higher), plus \$15,000, adjusted for COLA's under CSRS rules. The latter amount, including prior COLA's, is currently \$20,734.01. Since the CSRS COLA this year is 2.9 percent, the benefit increases to \$21,335.30 for any case in which the employee dies on or after December 1, 1996, and before December 1, 1997.

3. REEMPLOYED ANNUITANTS

a. Reemployed annuitants, both CSRS and FERS, whose salaries are being reduced by the amount of their annuity must take an additional reduction in salary beginning December 1, 1996, or the date of reemployment, whichever is later. The following rules apply:

- For CSRS annuitants, the reduction is equal to the 2.9 percent increase (or applicable prorated portion if this is the first increase) in the annuity.
- For annuitants whose annuity was computed solely under FERS rules (i.e., the annuity does not include a CSRS component), the reduction is equal to the 2.0 percent FERS increase (or applicable prorated portion).
- For reemployed FERS annuitants whose annuity includes a CSRS component (see item 2f, above), the additional reduction in their salary is determined by applying CSRS COLA rules to the CSRS portion of their annuity. If no FERS COLA is payable, the additional reduction in salary for a reemployed annuitant is based only on the increase in the CSRS portion.

b. To determine the new monthly rate to be used for reducing the reemployed annuitant's salary, adjust the old monthly rate upward by the appropriate percentage and round to the next lowest dollar. An adjustment must be at least one dollar. The new monthly salary reduction must be remitted to the Civil Service Retirement and Disability Fund via RITS or the SF 2812. If you cannot determine the reemployed annuitant's new rate, you can get help from:

Written Inquiries:	Office of Personnel Management Retirement Operations Center Boyers, Pennsylvania 16017
--------------------	--

Telephone Inquiries:	Retirement Information Office (202) 606-0500
----------------------	---

Your inquiries must include the annuitant's full name, date of birth, and retirement claim (CSA) number.

4. 1997 INTEREST RATE

a. The Department of the Treasury has informed OPM that the variable interest rate applied for certain purposes under both the Federal Employees Retirement System and the Civil Service Retirement System is 6.875 percent for calendar year 1997 -- the same rate as applied during 1996.

b. Prior interest rates are as follows:

before 1948	4%
1948 - 1984	3%
1985	13%
1986	11.125%
1987	9%
1988	8.375%
1989	9.125%
1990	8.75%
1991	8.625%
1992	8.125%
1993	7.125%
1994	6.25%
1995	7.00%
1996	6.875%

The interest on the FERS lump sum credit in 1984 was 11 percent.

c. The 6.875 percent interest rate for 1997 and the interest rates shown in item 4b, above, apply to all deposits or refunds under FERS rules and FERS lump-sum credit death benefit payments.

For CSRS employees, and for employees who transferred from CSRS to FERS with entitlement to have part of their benefits computed under CSRS rules, those interest rates also apply to:

- redeposits, if the agency or OPM received the refund application after September 30, 1982;
- deposits for noncontributory service performed after September 30, 1982;
- deposits for post-1956 military service; and

- interest paid on voluntary contributions.
- d. A fixed 3 percent interest rate will continue to be applied in the following cases:
- refunds of CSRS deductions;
 - redeposits (including CSRS component redeposits) if the agency or OPM received the refund application before October 1, 1982;
 - deposits for noncontributory CSRS service performed before October 1, 1982; and
 - CSRS deductions withheld from the first of the month after an employee has performed sufficient service to entitle him or her to the maximum annuity (excess deductions).

5. SIGNIFICANT SOCIAL SECURITY FIGURES FOR 1997

- a. On October 25, 1996, the Social Security Administration published figures in the *Federal Register* for 1997 that are significant for retirement matters. These figures are included here for the convenience of agency personnel.
- b. Social Security maximum wage base. The Social Security maximum taxable wage base for 1997 is \$65,400.
- c. Hospital Insurance contribution base. The limitation on the amount of earnings subject to the Hospital Insurance contribution was repealed (Public Law 103-66, section 13207). The Hospital Insurance tax is now due on the total remuneration paid during the year.
- d. Average total wages. The amount of average total wages for 1995 is \$24,705.66.
- e. Bend points. The dollar amounts, or bend points, used in the benefit formula for workers who become eligible for benefits in 1997, and in the formula for computing maximum individual benefits for 1996, are \$455 and \$2,741.
- f. FERS retiree annuity supplement earnings limit. The Social Security earnings limitation for 1997 is \$8,640.00. Any FERS annuitant who is receiving a FERS annuity supplement (unless he or she is under age 55 and retired under one of the

special provisions for law enforcement officers, firefighters, air traffic controllers, or military reserve technicians separated for loss of military membership) will have his or her annuity supplement offset in 1998 by \$1.00 for every \$2.00 over this amount earned in 1997.

A handwritten signature in black ink, appearing to read "Mary Sugar". The signature is fluid and cursive, with the first name "Mary" and last name "Sugar" clearly distinguishable.

Mary M. Sugar, Chief
Agency Services Division