Non-Foreign Area Retirement Equity Assurance Act of 2009

Summary of Legislation

- The legislation:
- Phases in locality pay over 3 years
- Protects employee take-home pay
- Results in higher pay potential for employees
- Provides greater retirement benefits for Federal employees
- Prevents further COLA rate reductions

Phases in locality pay over 3 years

- In 2010, all nonforeign area locality rates will be set at 4.62%, 1/3 of the Rest of US (RUS) locality pay area (13.86% in 2009)
- In 2011, the locality pay rates will be set at 2/3 of the applicable rate for their areas as recommended by the Federal Salary Council and President's Pay Agent
- In 2012, locality pay rates will be set at the full locality rate applicable for their area
- Alaska and Hawaii will be separate locality pay areas
- Remaining nonforeign areas (Guam/Commonwealth of the Northern Mariana Islands, US Virgin Islands, Puerto Rico, and American Samoa) will be part of the RUS locality pay area

Protects Employee Take-Home Pay

- COLA is not subject to Federal taxes, Social Security, and Medicare withholding, or retirement contributions – locality pay is fully taxable
- To protect take home pay, COLA rates will be reduced by only 65% of the locality pay rate – remaining 35% will help offset taxes
- For example, 65% of 4.62% = 3.00%
- Therefore, in 2010, locality pay would be 4.62% and COLA in effect would be reduced by 3 percentage points
- A gradually reducing COLA will continue to be paid after the 3 year phase in period – COLA will not be eliminated until 65% of the locality pay equals the frozen COLA

Protects Employee Take-Home Pay
Special Rate Employees

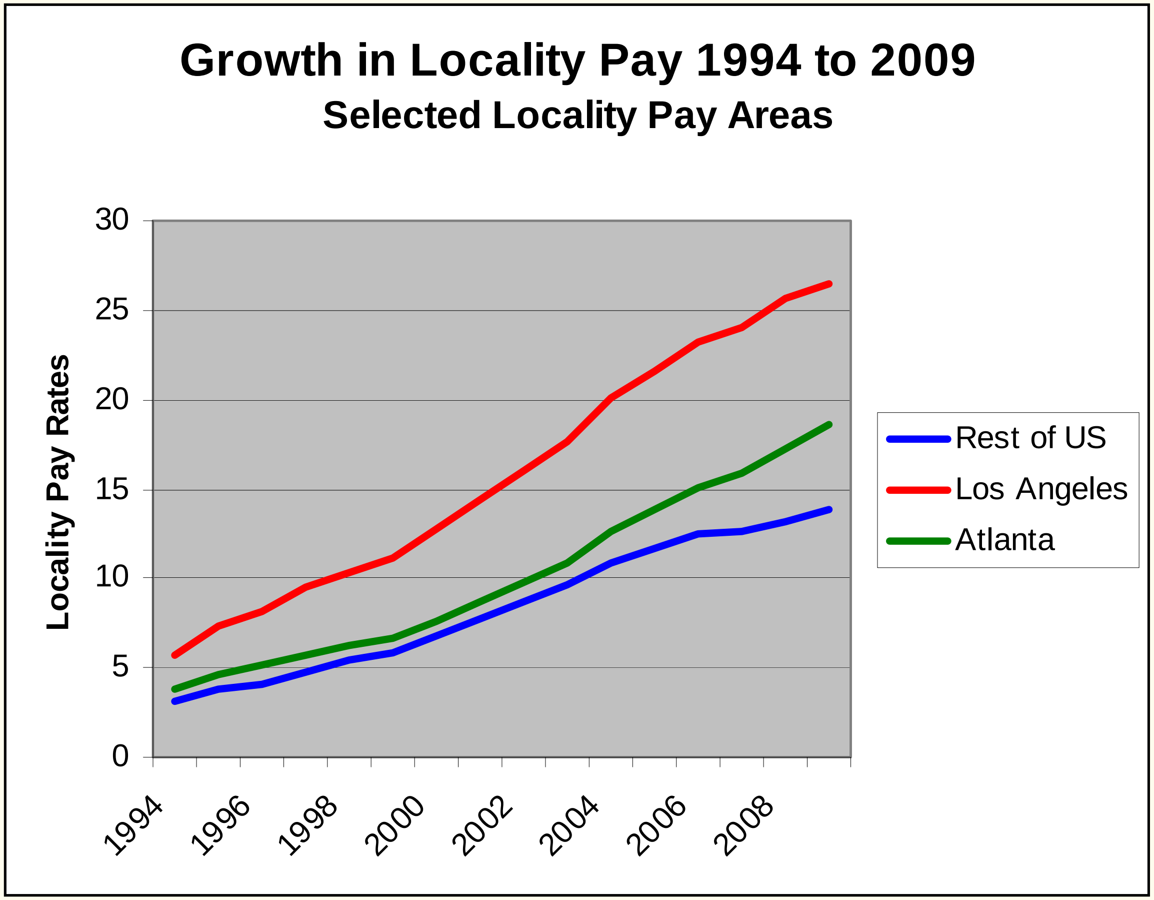
- In the COLA areas, COLA rates are paid on top of special rates
- In the contiguous 48 States, employees receive the greater of their special rate pay or the locality pay for their location
- To prevent take home pay from being reduced as COLA is being reduced, the legislation specifies that during the 3 year phase in period special rates will be increased by at least the dollar amount of locality pay given to non-special rate employees at the same minimum step
- During the 3 year phase in period, special rates can exceed the Executive Level IV pay cap – at the end of the 3 year period, special rate employees whose pay is over the cap will be on retained pay

Protects Employee Take-Home Pay SES, SL and ST Employees

- Senior Executive Service, Senior Level, and Scientific and Technical employees in the allowance areas receive COLA but are not eligible for locality pay in the contiguous 48 states
- To prevent take home pay from being reduced as COLA is being reduced, the legislation allows extending locality pay to people in these pay plans, whose duty station is in one of the allowance areas on the day before the first pay period beginning on or after January 1, 2010.
- If an SES, SL, or ST employee's rate of basic pay with the addition of locality pay would exceed the EX-III pay cap (or EX-II for employees in certified plans)–
    - the employee must continue to receive any applicable locality payment which is not in excess of the maximum rate set in 5 U.S.C. 5304; and
    - a reduced COLA payment equal to the rate computed using the 65% offset less the amount of locality pay received until they leave the allowance area or pay system or are entitled to receive basic pay at a higher rate

Results in Higher Pay Potential

COLA rates were capped at 25% of basic pay. Locality pay can exceed 25% if warranted but basic pay plus locality pay is limited to level IV of the Executive Schedule for most employees.



Provides Greater Retirement Benefits

- Unlike COLA payments, locality pay is included in calculating your “high 3” average salary
- Annuity payments will be higher
- The Government’s Thrift Savings Plan automatic 1% contribution for FERS employees plus their match for employee contributions will also increase by the locality pay rate
- Social Security eligible employees will also have higher lifetime earnings that Social Security uses to calculate retirement payments

Provides Greater Retirement Benefits
(continued)

- Employees who retire by December 31, 2012, can choose to have their a portion of COLA treated as basic pay in their high-3 retirement calculations
- The amount of COLA to be included, when added to the employee's locality pay amount, cannot exceed the unreduced locality pay amount
- Employees would be required to pay the retirement withholding amounts they would have paid had they received the unreduced locality pay rate, plus interest

Provides Greater Retirement Benefits
(continued)

- For example, assuming the applicable 2010 locality pay rate is 13.86%, the first year phase in rate is 4.62%
- The difference between the two rates is 9.24%
- The dollar amount of COLA that can be considered as basic pay for annuity computations could be no more than 9.24% of basic pay
- Employees would have to pay an amount equal to the retirement withholdings that would have been made if the 9.24% had been included in their basic pay
- Employees would have to pay interest on this amount (the 2009 rate is 3.875%)

Provides Greater Retirement Benefits
(continued)

Without "Opt-In"						High Three
		Locality	Locality	Basic Pay for	"Opt-In"	Year Average
	Basic Pay	Pay Rate	Pay	Retirement	Amount	for Retirement
2008	$50,000			$50,000		$50,000
2009	$50,000			$50,000		$50,000
2010	$50,000	4.62%	$2,310	$52,310		$50,770
2011	$50,000	9.24%	$4,620	$54,620		$52,310
2012	$50,000	13.86%	$6,930	$56,930		$54,620
With "Opt-In"						
2008	$50,000			$50,000		$50,000
2009	$50,000			$50,000		$50,000
2010	$50,000	4.62%	$2,310	$52,310	$4,620	$52,310
2011	$50,000	9.24%	$4,620	$54,620	$2,310	$54,620
2012	$50,000	13.86%	$6,930	$56,930	0	$56,930
			Increase in High Three with "Opt In"			**$2,310**
		CSRS cost	7% of "Opt In" Amount		$485	
		FERS cost	0.8% of "Opt In" Amount		$55	
	(Note: Cost estimate excludes interest, and certain employees have higher contribution rates)					

Simplified example, assumes no further base or locality pay increases

Prevents Further COLA Rate Reductions

- COLA rates have been reduced in Alaska and a further proposed reduction was in clearance in Office of Management and Budget (OMB) when the bill was enacted
- The final rule for a COLA rate reduction in Hawaii and Guam was also in clearance in the OMB
- Results of the 2008 Caribbean survey indicated a reduction in the Puerto Rican COLA rate
- The legislation froze all COLA rates, canceling the proposed/potential reductions

What Will Happen in January?

Year	2009	2010		
Base GS pay[1]	$50,000	$50,750		
Locality Pay[2]	0	4.62%		
Total Basic Pay (Retirement Creditable)	$50,000	$53,095		
COLA Pct	25%			
Adjusted COLA Pct[3]		21.03%		
COLA Payment	$12,500	$11,166		
Total	$62,500	$64,261		
Increase in Base Pay from 2009 to 2010		2.82%		
Notes:				
1. Includes 1.5% across-the-board increase effective January 3, 2010.				
2. By law, 1/3rd of the Rest of US Locality Pay Rate (2009 rate is 13.86%)				
3. The adjusted COLA is calculated as	"Frozen COLA Rate"		25.00%	
	less 65% of Locality Pay		-3.00%	
	Reduced COLA Rate=		22.00%	
	Divide by (1 + locality Pay Rate)		104.62%	
		result =	21.03%	