



The Non-Foreign Area Retirement Equity Assurance Act of 2009 Implications for DCIPS Employees

January 2010

The Non-Foreign Area Retirement Equity Assurance Act of 2009 - Implications for DCIPS Employees Fact Sheet provides information on changes to cost-of-living allowances (COLAs) and targeted local market supplements (TLMS) for DCIPS employees in non-foreign OCONUS areas.

Background

General Schedule (GS) and DCIPS employees in non-foreign areas outside the continental United States (OCONUS) receive cost-of-living allowances (COLAs) but do not receive locality pay. The Non-Foreign Area Retirement Equity Assurance Act of 2009 provides for the redistribution of income from COLA to locality pay, thereby providing a higher level of basic pay that is counted in the "high 3" retirement calculation. Locations affected by this legislation include Alaska, American Samoa, the Commonwealth of the Northern Mariana Islands, the Commonwealth of Puerto Rico, Hawaii, the Territory of Guam, and the United States (U.S.) Virgin Islands.

Technical Details of the Legislation

Effective January 3, 2010, locality pay equal to one-third of the Rest of U.S. (RUS) locality pay rate will be instituted for employees in all non-foreign OCONUS areas. One-third of the 2010 RUS rate is 4.72%. COLA will be reduced by 65% of the locality rate, then adjusted by dividing by one plus the locality pay rate.

Example: Assuming the 2009 COLA rate is 25%, the 2010 COLA rate is determined using the following formula:

$$\text{2010 COLA Rate} = \frac{25\% - (65\% \times 4.72\%)}{1 + 0.0472} = \frac{25\% - 3.068\%}{1.0472} = \frac{21.93\%}{1.0472} = 20.94\%$$

Beginning in 2011, a new locality pay rate will be created for each non-foreign area. GS employees will receive two-thirds of this new locality rate beginning in January 2011, then the full locality rate beginning January 2012. Each year, COLA will be reduced by 65% of the locality pay rate until it is reduced to zero. It is uncertain how long this will take because it is dependent on the non-foreign area locality pay rates implemented in 2011, and subsequently adjusted each year.

Further information regarding the impact of the Non-Foreign Area Retirement Equity Assurance Act of 2009 on the payment of COLA to employees in non-foreign areas is available on the OPM website (www.opm.gov/oca).

How the Legislation Affects DCIPS Employees - Changes for DCIPS Employees in 2010

To prevent DCIPS employees in non-foreign OCONUS areas from losing pay in 2010 as a result of the reduction in COLA, DCIPS employees will receive a targeted local market supplement (TLMS) increase of 4.72%, which equals the new GS locality rate for non-foreign OCONUS areas effective January 2010. NSA employees will receive a 4.72% increase to their special salary rates.

Under the Non-Foreign Area Retirement Equity Assurance Act of 2009, department heads may waive the statutory basic pay cap (level IV of the Executive Schedule) during the three-year locality pay phase-in period. The Executive Schedule level IV pay cap will be waived for DCIPS employees whose TLMS or special rates have been increased as a result of this legislation.

Beyond 2010

In 2010, the Office of the Under Secretary of Defense (Intelligence) will lead a review of pay practices to determine whether adjustments are warranted for 2011. The review will be conducted with the assistance of compensation specialists from DCIPS components, as well as a contracted compensation consulting firm. Details will be communicated as they become available.