

## Locality Pay Fact Sheet (January 2016)

### **COLA/Locality Pay for Federal Workers in Hawaii and other Non-Foreign Areas:**

Background: The U.S. Government pays cost-of-living allowances (COLAs) to white-collar civilian Federal employees in Alaska, Hawaii, Guam and the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands. Section 5941 of title 5, United States Code, and Executive Order 10000 (as amended) authorize the payment of COLAs in non-foreign areas. The Non-foreign Area Retirement Equity Assurance Act (the Act) as contained in subtitle B (sections 1911-1919) of title XIX of the National Defense Authorization Act (NDAA) for Fiscal Year 2010 (Public Law 111-84, October 28, 2009) transitions the non-foreign area cost-of-living allowance (COLA) authorized under 5 U.S.C. 5941(a) (1) to locality pay authorized under 5 U.S.C. 5304 in the non-foreign areas as listed in 5 CFR 591.205. The Act also extends locality pay to American Samoa and other non-foreign territories and possessions of the United States where no COLA rate applies.

When the NARA Act in 2010 extended locality pay to non-foreign areas, locality pay for these areas was phased in over three years beginning in January 2010. Unlike COLA, locality pay is credited for salary for retirement purposes, TSP contributions, etc, and is taxable.

COLA is reduced \$0.65 for each \$1.00 increase in locality pay, meaning that locality pay would have to increase to about 38% before COLA is “zeroed out” for federal workers in Hawaii. COLA is not generally taxable by the federal government, but may be subject to income tax for Hawaii state residents.

The President signed an Executive order on December 18th, 2015 to implement the January 2016 pay adjustments. The Executive order authorizes a 1 percent across-the-board increase for statutory pay systems and locality pay increases costing approximately 0.3 percent of basic payroll, reflecting an overall average pay increase of 1.3 percent. This is consistent with the President’s alternative pay plan issued under 5 U.S.C. 5303(b) on August 28, 2015, and the President’s alternative pay plan issued under 5 U.S.C. 5304a on November 30, 2015.

For Honolulu, Hawaii:

Year	COLA Rate	Payable Locality Rate	Full Locality Rate
2009	25	0	0
2010	20.94	4.72	14.16
2011	16.07	11.01	16.51
2012	12.25	16.51	16.51
2013	12.25	16.51	16.51
2014	12.25	16.51	16.51
2015	12.25	16.51	16.51
2016*	12.05	16.81	16.81

Locality Pay “buy-back” provisions allowed employees who retired between January 1, 2010 and December 31, 2012 to elect to treat part of COLA as if it were locality pay for retired annuity purposes. That opportunity is now closed.

There is no certain date when the locality pay/COLA transition will end. In the past, locality rates have gone up 0.5%-1.0% per year, roughly. The 2016 increases in locality pay, which also included the establishment of new and the expansion of existing locality pay areas on the mainland U.S., are the first increases since 2011. Various models used to estimate salary gaps for Hawaii put locality pay at above the 38% to zero out COLA. However, locality pay is included in the current political deliberations about federal pay and benefits.

The Honolulu-Pacific Federal Executive Board continues to receive inquiries regarding the COLA/Locality Pay “transition” that suggest that there is still some confusion amongst employees and their HR support regarding the status of COLA and Locality Pay in Non-Foreign Areas (which include Hawaii, Guam and the CNMI). One particular issue seems to be people confusing the three year “phase in” of Locality Pay under NAREAA (2010-2012) with the actual increases in Locality Pay required to “zero out” the COLA rates (which could take many years). The following guidance was recently provided by OPM on this issue:

“The 2016 cost-of-living allowances (COLAs) and locality percentages for employees in non-foreign areas are changed from the 2015 amounts. The locality and COLA rates in each COLA area are provided here on the OPM web-site as indicated in CPM 2014-17, <http://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/nonforeign-areas/#url=COLA-Rates> .

What is known as the residual COLA will continue in the non-foreign areas until it is completely phased out by locality pay increases. COLA has not been phased out in any of the non-foreign areas.

As can be seen, the COLA rates for the State of Hawaii are 12.05 percent for all of the islands except for Hawaii County which has a residual COLA amount of 6.05 percent.

The three year phase-in period under NAREAA was actually to phase in the relevant locality rate, not to phase out COLA completely. COLA should continue to be paid at the reduced rates indicated on OPM’s website to all otherwise eligible employees, including employees hired after passage of the NAREAA.”

If your agency’s HRO has questions regarding COLA and Locality Pay in Non-Foreign Areas, they should contact OPM (Pay and Leave Services).

## **Links: 2016 Pay Tables**

State of Hawaii: <http://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf/2016/HI.pdf>. Currently, COLA is set at 12.05% for Honolulu, Kauai and Maui counties, and at 6.05% for Hawaii County.

Guam/CNMI/American Samoa receive Locality Pay at the Rest of US (RUS) rate, the 2016 rate increased from 14.16% in 2015 to 14.35%. Pay tables are located at <http://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf/2016/RUS.pdf>. The COLA rate for Guam and CNMI is 13.70% in 2016. There is no COLA currently authorized for American Samoa.

To calculate your annual pay, including locality pay for a given location, you can also use the calculator on the OPM website: <http://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/2016/general-schedule-gs-salary-calculator/>. \* The COLA rate, set at 12.05% for Honolulu, Hawaii (or for your specific location if not in Honolulu), would then be applied to this salary for an estimate of total pay for 2016. However, it is important to remember that only your salary (base with locality pay) is used to complete deductions such as for retirement contributions, social security payroll tax, Medicare, employee TSP contributions, federal retirement annuity calculations, etc.

\*Special situations such as post differentials, special pay, etc would require a different calculation. Eligible white collar employees residing in areas where post differentials may be authorized can find rates under the "Post Differentials" tab here:

<https://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/nonforeign-areas/>.

Those authorized special pay rates can find them at:

<http://apps.opm.gov/SpecialRates/2016/Index.aspx>.