Testimony for the Record
Before the House of Representatives
Committee on Oversight and Government Reform
Subcommittee on the Federal Workforce, the Postal Service and the District of Columbia
June 26, 2008

Chairman Davis, Ranking Member Marchant and Members of the House Subcommittee the Federal Workforce, the Postal Service and the District of Columbia:

My name is Joyce Matsuo. I am president of the COLA Defense Committee of Oahu, Inc. (hereafter, the Oahu COLA Committee), a non-profit corporation. The 15,000 federal employees on Oahu is the largest group of COLA recipients covered by a COLA Committee. In Hawaii, COLA Committees were originally established on each island but only 2 remain today – the Oahu and Maui COLA Committees. The primary purposes of our corporations are to monitor the COLA program as implemented by the U.S. Office of Personnel Management (OPM) and to share information about the COLA program and other compensation programs with the white collar federal employees and the U.S. Postal Service employees on the island of Oahu.

I have been involved with the Oahu COLA Committee since 1986 and continue to remain active. As a COLA Committee representative, I have been involved in the collaborative studies with OPM that began in 1995 which resulted in the current improved COLA survey methodology. Two important outcomes of the collaborative studies were that (1) it updated the survey methodology with current economic concepts and (2) it resulted in a more objective survey methodology that would protect the government from future COLA survey methodology lawsuits. With six other COLA Committees' representatives, I continue to participate with OPM in the implementation phase of this improved methodology.

At the start of the 1995 collaborative studies, the COLA Committees' representatives and OPM recognized that with the implementation of locality pay in 1994 to be applied to the federal employees in the 48 contiguous states and excluding the federal employees in Alaska and Hawaii, a retirement inequity was created between the COLA areas and the contiguous United States.

We find it unusual that Alaska and Hawaii were excluded from a pay statute as this had never happened before in history, regardless of receiving a COLA since 1948. [1] Since 1994, federal employees in Alaska and Hawaii have not received comparable pay as their counterparts in the 48 states and the benefits that go with the increased pay such as increased over time pay, premium pay, retirement and TSP contributions, and retirement benefits.

In working with OPM since 1995, we were told that the COLA and locality pay programs were two distinct and separate programs. COLA is paid to the COLA areas to provide a standard of living comparable to the DC area. The COLA rate is determined by measuring living costs differences between DC and a COLA area. Locality pay is based on wage differences between the federal sector and the private and local governments' sectors in a particular locale. Living costs are not to be considered when determining locality pay.[2] Hence, in Houston, where the living costs are comparatively low as compared to a high cost area as San Francisco or Los Angeles, its locality pay is one of the highest. Because these programs are so distinct from one another, OPM would not allow adjusting our COLA to take into consideration the fact that DC-base area for determining our COLA received a locality pay amount and the COLA areas did not because doing so would be mixing the two programs together. So, we were further disadvantaged as we would not be receiving a proper COLA if this fact was not considered.

In 2007, the Bush Administration proposed converting COLA to locality pay. Then, in April 2008, Senate Bill 3013 was introduced in the U.S. Senate that proposed revisions to the Administration's proposal.

As early as 1991, OPM recognized the retirement inequity between the COLA areas and the 48 states and contemplated a conversion of COLA to locality pay. Still, it

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[1] The President's approved annual pay raises in 1994 and thereafter were about the same as pay raises in years prior to 1994. FEPCA provided a mechanism for re-allocating a portion of the annual pay raise to the locality pay areas.

[2] See senate hearings on the Civil Service Reform Act of 1990.

has taken almost 17 years for this issue to be finally addressed by Congress. We are looking for a fair resolution of this long, on-going and continuing retirement inequity.

I would like to take this opportunity to comment on four key aspects found in the proposals to convert COLA to locality pay:

1. Phase-In Period: We believe that Alaska and Hawaii should not have been excluded from locality pay from the onset. Had we been included, our present locality pay rates would be at least the rates determined in a 1996 BLS locality pay surveys conducted in the COLA areas. Then, the (funded) locality pay rate for Alaska was estimated to be about 38% and Hawaii at RUS. In July 2007, OPM calculated locality pay estimates for Alaska at 28% and Hawaii at 20%.

The Administration's proposal calls for a 7-year phase-in period and S. 3013 proposes a shorter 3-year phase-in period. Either proposal calls for a fraction of the RUS rate in the first year and proportional yearly increases of applicable locality pay rates thereafter until the end of the phase-in period. For example, S. 3013's 3-year phase-in calls for 1/3 of RUS (or 4.39%) in year 1; 2/3 of applicable locality pay rate in year 2; and full applicable locality pay rate in year 3.

If we consider that Alaska should be at 38% today[3], it is hardly fair to consider a 4.39% rate in year 1. Similarly, for Hawaii, if our locality pay rate would be about 20%, a 4.39% is not fair. That employees would have to work another two years to reach full applicable locality pay in year 3, and then, work another three years to achieve their "high-3" for retirement purposes is unconscionable. We are seeking comparable retirement benefits to the retirement benefits of our counterparts in the 48 states which they receive <u>today.</u>

We propose that full applicable locality pay rates be considered from year 1. However, if a phase-in period is necessary, then the shorter 3-year period proposed in S. 3013 should be used. However, we propose that <u>full RUS</u> be granted in year 1 and the rates for years 2 and 3 be adjusted accordingly.

2. Buy-in Election: S. 3013 proposes a buy-in for the phase-in period which would allow employees retiring any time during the 3-year phase-in period to elect to

[3] Under the current locality pay program, if the locality pay rate drops for an area, pay is not reduced. Instead, the locality pay rate is "frozen" until a subsequent locality pay survey equals or exceeds the "frozen" rate.

have their remaining COLA amounts count towards retirement. Allowing the buy-in on COLA could result in COLA plus locality pay phase-in amounts exceeding a COLA areas' true locality pay rate. We recommend instead that if there is to be a phase-in of true locality pay rate, the retiring employee be allowed to have the difference of true locality pay less the locality pay phase-in amount count towards retirement. The period for this election should be extended to five years so all retiring employees under the conversion of COLA to locality pay would be able to benefit from full applicable locality pay for "high-3" purposes.

For example, using Hawaii's locality pay rate of 20%:

Year 1 – 1/3 of RUS, or 4.39% locality pay rate. The retiring employee would have their COLA up to 15.61% count towards retirement. The total of locality pay plus this COLA amount is 20%.

Year 2 – 2/3 of 20%, or 13.4% locality pay rate. The COLA counting towards retirement would be 6.6%. The total of locality pay plus this COLA amount is 20%.

Year 3 – Full locality pay, or 20%.

The employee retiring any time during the period from implementation to five years later would be able to make their own decision as to how many more working years they will put in to achieve their "high-3" years. (Any one who works beyond the fifth year will be earning full locality pay for three years and would not require a buy-in provision.)

The present number of retirement-eligible employees consists mainly of CSRS employees. They have been waiting for a conversion proposal since 2001. We expect all of the CSRS employees to be making this election. Rather than engaging in a buy-in process, it is simpler to offer full locality pay at the start as the buy-in process provides for achieving full locality pay during the phase-in period anyway.

3. No Impact on Take-home Pay: It is the senators' desire to preserve employees' take-home pay during the conversion of COLA to locality pay.[4]

[4] Prior to 1994, three areas received a special 8% pay increase until FEPCA could be implemented. When implemented in 1994, these areas continued to receive the higher of 8% or their locality pay rate. Special rate employees received the higher of their special rate or locality pay. There was no loss in pay with the implementation of FEPCA in 1994.

We support the adjustment factor of 65% proposed by the senators as this ensures minimal impact on take-home pay. Our calculations using an 85% as proposed by the Administration show that there will be a significant negative impact on take-home pay and is not acceptable.

4. Retirees: Both proposals do not address those employees who have retired. These annuitants are not receiving the proper annuities they should be receiving had Alaska and Hawaii not been excluded from locality pay or had COLA been converted to locality pay beginning in 1994. It is proposed that a buy-in provision for our annuitants be considered which would allow them to buy-in the locality pay amounts, subject to their COLA as a cap, for re-determining their "high-3" years. Annuitants would pay their retirement contributions on the locality pay amounts plus interest. (This would be similar to the military service buy-in offered to federal employees with prior military service.)

We have submitted extensive comments to the senate subcommittee on S. 3013 that cover these four aspects as well as other areas of concerns. They are part of the senate hearing record.

I want to thank you for this opportunity for providing comments on converting COLA to locality pay. I am available to answer any questions or provide further explanations.

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