NEIL ABERCROMBIE
1ST DISTRICT, HAWAII

COMMITTEE ON
ARMED SERVICES
COMMITTEE ON
NATURAL RESOURCES

Congress of the United States
House of Representatives
Washington, D.C. 20515

STATEMENT OF
HON. NEIL ABERCROMBIE
OF HAWAII

FOR THE HOUSE OVERSIGHT AND GOVERNMENT REFORM SUBCOMMITTEE ON THE FEDERAL WORKFORCE, POSTAL SERVICE AND THE DISTRICT OF COLUMBIA HEARING ON "IN SEARCH OF EQUITY: AN EXAMINATION OF LOCALITY PAY."

Thursday, June 26, 2008

Chairman Davis and Ranking Member Marchant, thank you for the opportunity to submit my comments to the subcommittee regarding a pressing issue affecting many federal government employees in Hawaii.

Equitable retirement pay for federal employees outside the contiguous 48 states is a concern shared by many civil servants living in Alaska, Hawaii and the U.S. territories. The current system provides a tax-free cost of living adjustment (COLA) to federal employees in positions outside of the continental United States. However, unlike locality pay (which is taxable income) that money is not included in the determination of the "High Three" or three highest consecutive years of pay averaged to determine the baseline for their retirement annuity. As a result, senior federal employees are returning to the mainland U.S. for their final years of service in order to avoid a cut in their retirement pay.

If federal service in the non-contiguous areas such as Hawaii is seen as a drawback to one's future financial well-being, we will have an increasingly difficult time attracting and retaining quality personnel. Further, federal workers should not have to resort to completing their final years of service on the mainland just to earn adequate retirement pay.

I am very concerned about the Office of Personnel Management (OPM) proposal as it may reduce the actual take-home pay received by an individual federal employee. The current proposal suggested by OPM would use complex formulas to compute the transition from COLA to locality pay based on 85 percent of an employee's salary, which will not fully address the financial impact of the added taxable income created by the

ORIGINATED FROM:
☑ WASHINGTON OFFICE: 1502 LONGWORTH HOUSE OFFICE BUILDING, WASHINGTON, D.C. 20515 (202) 225-2726 / 225-4580 FAX
☐ HOME OFFICE: ROOM 4-104, 300 ALA MOANA BLVD., HONOLULU, HAWAII 96850 (808) 541-2570 / 533-0133 FAX
Homepage: http://www.house.gov/abercrombie/ E-mail: neil.abercrombie@mail.house.gov

switch. However, the proposed Senate legislation incorporates a formula based on 65 percent of an employee's salary, which I think more accurately captures the effect increased taxable income will have on the take-home salary of current employees. Moreover, the length of the OPM proposed transition period – seven years – also negatively impacts more senior personnel who are closer to retirement.

I support S. 3013, the Non-Foreign AREA Act of 2008, which was recently introduced by Senators Akaka, Inouye, Stevens and Murkowski. This bill provides retirement equity for federal employees outside the 48 contiguous states, such as Hawaii. It proposes a better formula for the conversion. In addition, it provides a solution by converting COLA to locality pay by 2011, which increases the retirement annuities earned by the affected workers while protecting actual take-home pay.

In addition, legislation on this issue should address federal retirees and personnel who will retire prior to the completion of the three year phase-in period by including a "buy in" provision that would allow affected employees to pay a certain amount based on the appropriate retirement system they belong to (Civil Service Retirement System, Federal Employee Retirement System) plus interest for the locality pay in effect at the time their 36-month period is calculated to determine their "High Three." This issue came out during a field hearing by the Senate Homeland Security and Governmental Affairs Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia held in Honolulu, Hawaii on May 29, 2008 and is not resolved by S. 3013.

I think this bill is an important step in addressing the inequality between those serving in the continental United States and those serving in remote locations such as Alaska, Hawaii and the territories. Federal employees throughout the nation are making an equal contribution to the health, well-being and security of our nation. Regardless of where they live, they deserve equal treatment and should not be penalized in their retirement for choosing to contribute to the local communities outside of the 48 contiguous states.