

**Statement of Senator Daniel K. Akaka**

**Subcommittee on Oversight of Government Management, the Federal Workforce,  
and the District of Columbia  
Senate Committee on Homeland Security and Governmental Affairs**

**“Non-Foreign COLA: Finding an Equitable Solution”  
May 29, 2008**

First I want extend my mahalo to the witnesses who traveled from Washington, D.C., Alaska, and Guam to be here today. I appreciate your participation in this hearing to discuss one of the most pressing issues for federal workers in Hawaii.

In addition, I would like to say mahalo to Senators Inouye and Stevens for sending their staff to attend this hearing. And, a special mahalo to my staff for hosting the numerous meetings this week discussing the legislative proposals to phase-out non-foreign cost-of-living allowance (COLA) and phase-in locality pay. My staff has informed me of the comments and questions federal workers have expressed to date, and I encourage all employees who may be affected by the conversion from non-foreign COLA to contact me and let me know their views.

As you all know, under current law federal employees in Hawaii, Alaska, Guam, the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands may receive up to 25 percent of base pay as non-foreign COLA. This allowance is not taxed and does not count toward retirement. The amount of non-foreign COLA is based on the cost of living in the non-foreign areas compared to the cost of living in D.C. Locality pay is based on a comparison between federal salaries and white collar salaries in the private and public sectors in a given region.

Since the creation of locality pay in the 1990s, there has been much discussion over the disparity between employee's pay and retirement in the non-foreign areas compared to the contiguous 48 states. Despite the efforts of the COLA Committees and others to resolve this issue, federal workers in Hawaii and the other non-foreign areas remain disadvantaged in their retirement benefits.

Last year, the President proposed legislation in his fiscal year 2008 budget request to transition from non-foreign COLA to locality pay. The Administration's proposal would:

- Freeze non-foreign COLA rates for all General Schedule (GS) and postal employees at their current level;
- Phase-in locality pay over a 7-year period as non-foreign COLA is phased-out; and
- Reduce non-foreign COLA by 85 percent of each dollar of locality pay that is phased-in to make up for the additional tax burden of employees now receiving locality pay. This would not penalize any employee receiving non-foreign COLA

who is at, or below, a GS 7 step 3, which is less than half of the GS federal workforce in the non-foreign areas.

However, the Administration's proposal left many questions unanswered. It did not address how postal employees, members of the Senior Executive Service, and employees who receive special rates will be treated since they do not receive locality pay. The proposal was also unclear as to whether federal workers in unique personnel systems would be covered by the legislation.

Because this issue is so important to federal workers in Hawaii, I sent my subcommittee staff to Hawaii last July to conduct fact-finding meetings and listen to employees' questions and concerns first hand. I then submitted those questions to Administration officials and posted the responses on my website.

Based on the responses from Administration officials and comments received from affected federal workers, Senators Stevens, Inouye, Murkowski, and I introduced S. 3013, the Non-Foreign Area Retirement Equity Assurance Act or the Non-Foreign AREA Act, as a discussion piece to move the issue forward. Our bill seeks to address the unanswered questions in the Administration's proposal and respond to the concerns raised by affected employees. Specifically, our bill would:

- Cover all federal employees;
- Protect employees' take home pay;
- Phase-in locality pay over three years;
- Allow current employees a one-time option to receive frozen COLA rates or transition to locality pay; and
- Allow employees who will retire in the next three years the opportunity to pay into the federal retirement system and transition to locality pay before retirement.

The Non-Foreign AREA Act is not to be seen as the last word, only the latest step forward in determining the best way to ensure retirement equity for federal workers in the non-foreign areas. So again, I want to encourage employees in the audience and in the non-foreign areas to contact me with their questions and concerns on these proposals. After the hearing adjourns, we will hold a meeting where the Administration witnesses and my staff can answer questions from audience members on the proposals. My ultimate goal remains to ensure that federal workers in the non-foreign areas are not disadvantaged when it comes to their pay and retirement and by working together I believe we can come up with an equitable solution.