

**COLA DEFENSE COMMITTEE OF GUAM
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TESTIMONY OF

**MANUEL Q. CRUZ
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COLA DEFENSE COMMITTEE OF GUAM**

BEFORE THE

**UNITED STATES SENATE
COMMITTEE OF HOMELAND SECURITY & GOVERNMENT AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,
THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA**

HEARING ON

NON-FOREIGN AREA RETIREMENT EQUITY ASSURANCE ACT OF 2008

**THURSDAY, MAY 29, 2008
OAHU VETERANS CENTER
HONOLULU, HAWAII**

Hafa Adai, Mr. Chairman and Members of the Subcommittee:

My name is Manuel Q. Cruz and I am the President of the COLA Defense Committee of Guam. I want to thank you for the opportunity to appear before the Subcommittee to testify on Senate Bill S. 3013, the “Non-Foreign Area Retirement Equity Assurance Act of 2008.” I also want to thank you and Senator Voinovich for inviting me to this hearing.

Almost to the exact date last year (May 30, 2007), the Office of Personnel Management (OPM) sent a legislative proposal to Congress that would phase-out the Non-Foreign Cost-of-Living-Allowance (COLA) and phase-in locality pay for Federal employees in Alaska, Hawaii, Guam and the Commonwealth of the Northern Mariana Islands (CNMI), Puerto Rico, and the U.S. Virgin Islands. President George Bush proposed the change in compensation policy as part of his FY 2008 budget. It would change a pay system that is in place since 1948.

You will note in the President’s proposal that locality pay will be extended to white-collar Federal employees in the COLA areas, while reducing COLA payments

gradually. The changes would be phased-in over a 7-year period. At the same time, workers would be receiving the so-called “locality” payments, which would boost salaries based on surveys of what is paid by the private sector in local markets.

While not knowing the full details of the proposal, it was felt by many of the affected white-collar workers on Guam that the 25 percent COLA that were being received at the time could be in jeopardy. Locality pay was considered, in most cases, to be not as high as COLA. Thus, it would appear that some workers may benefit under the proposal, while others could be hurt.

Since 1948, Federal employees in Guam have received COLA to ensure that their pay reflects the high cost of living. COLA is not subject to Federal or Social Security/Medicare taxes. Locality pay, on the other hand, is taxed and considered part of base pay, which is used to calculate an employee’s retirement annuity. COLA is based on living costs, while locality pay is based on differences in the cost of labor. Additionally, COLA payments can be reduced, while locality pay has been increasing in the last few years.

With the introduction of the “Non-Foreign Area Retirement Equity Assurance Act of 2008,” it is my understanding that COLA rates will no longer be determined based on the difference in the cost of living with Washington, D.C. , but will now be the rate in effect on December 31, 2008. The Office of Personnel Management (OPM) has been seeking slowly to phase-out the COLA system in favor of the locality pay system, but this new legislative proposal will speed up the process. The result will be that the new system will be fully in place in three (3) years rather than the seven (7) years that was suggested by OPM.

It is also my understanding that the legislative proposal is intended to benefit all Federal employee groups whose counterparts in the U.S. Mainland currently receive locality pay. Employees who will soon be forced to retire due to age and those intending to retire in three (3) years or less will be able to buy in to the program to ensure that they may fully participate in the new system. The legislative proposal, however, does not address already retired employees.

It must be noted that Guam and the CNMI have some unique situations that may not be fully addressed by the new legislative proposal. They are:

1. Post Differential (PD)

A Post Differential (PD) is based on environmental conditions being significantly different from the continental U.S. and used by Federal agencies for recruiting purposes. PDs are authorized for Guam and the CNMI. The PD rate for Guam and the CNMI has been set at 20 percent. Like COLA, PDs do not count toward retirement. It is not clear in the legislative proposal how PDs will be addressed. Locality pay has no effect on the price of goods either in Washington, D.C., or in the foreign areas.

2. National Security Personnel System (NSPS)

The NSPS Program only applies to Department of Defense (DOD) civilian employees. The majority of Federal employees on Guam work for DOD activities. How are questions on NSPS features (local market supplement) going to be addressed? NSPS implementation apparently has no effect on COLAs, so employees continue to receive COLA at the time of conversion. But, what about locality pay?

3. Non-Appropriated Fund (NAF) Employees

NAF employees do not receive locality pay. COLA is not granted to employees in NAF positions in paybands NF-1 and NF-2.

4. CONUS COLA

As a requirement of their military service, members of the Uniformed Services move about the country. Many military members and their families are assigned to a variety of low, moderate, and high-cost locations. Private sector pay scales tend to reflect local living costs in U.S. locations, but military pay tables do not. Would such a COLA Program become a problem when the non-foreign COLA Program is phased-out?

5. DODEA Schools

OPM claims that the change would benefit workers because locality pay, unlike COLA, counts toward retirement. However, there would be no true benefit since the locality pay in a location, such as Guam, would amount to less than DODEA employees have been receiving from their salaries alone under their current system.

In closing, I have to admit that I still have mixed feelings regarding the proposed legislative proposal. Until such time that I learn more of the various provisions and ramifications of the proposal, I have to keep an open mind regarding the matter. However, I do want point out for the record that the COLA issue will continue to be of great importance to Federal employees in the COLA areas, since it truly represents such a significant portion of their cash compensation. The fact is that although Guam and the CNMI are currently under the COLA Program, they have profoundly different economies, labor markets, climates, and access to various resources, including those purchased by the Washington, D.C. area's "typical" Federal employee household. It is possible that different solutions may be appropriate for the different areas, and that while a continuation of the COLA Program is warranted in some areas, it may not be in others. As such, I sincerely urge the Subcommittee to address problems in the COLA areas taking into consideration the unique attributes of each area.

On behalf of the COLA Defense Committee of Guam and all the Federal employees on Guam and the CNMI, thank you again, Mr. Chairman and Members of the Subcommittee for this opportunity for me to appear before you all. Si Yu'os Ma'ase! I will be happy to answer any questions you may have at this time.