



United States
Office of Personnel Management
Retirement and Insurance Service

Benefits Administration Letter

Number: 97-706

Date: November 28, 1997

Subject: Cost-of-Living Adjustments for Annuities; New Variable Interest Rate

Background: This letter provides information about cost-of-living adjustments (COLA) for annuities, the variable interest rate for 1998, and other annual figures affecting retirement benefits.

Civil Service Retirement System Cost-of-Living Adjustment Annuitants who retired under the Civil Service Retirement System (CSRS) will get a cost-of-living adjustment (COLA) effective December 1, 1997. They will receive the increases in their January 2, 1998, annuity payments. (See *The CSRS and FERS Handbook for Personnel and Payroll Offices*, Chapter 2, subchapter 2A.) The increase will be 2.1 percent for all annuitants retired under CSRS, except those who have not been on the annuity roll for a full year. The 2.1 percent increase was derived by computing the percentage increase in the Consumer Price Index (CPI) for urban wage earners and clerical workers from the third quarter average of 1996 to the third quarter average of 1997.

Proration of CSRS Retiree's First COLA By law, a retiree's first COLA must be prorated. Retirees will get one-twelfth of the applicable cost-of-living increase for each month they were on the annuity roll before December 1, 1997, not to exceed 12 months. To get the full December 1, 1997, increase, a retiree's annuity must have begun no later than December 31, 1996. To get one-twelfth of the December 1, 1997, increase, the annuity must have commenced no later than November 30, 1997.

CSRS Proration Table The following table shows the actual prorated percentage increases that apply to CSRS retirees according to the month in which the annuity began to accrue:

*Civil Service
Retirement
System*

*Federal Employees
Group Life
Insurance*

*Federal Employees
Health Benefits
Program*

*Federal Employees
Retirement
System*

Annuity Began	Amount of Increase
December 1996 or earlier -	2.1%
January 1997	1.9%
February 1997	1.8%
March 1997	1.6%
April 1997	1.4%
May 1997	1.2%
June 1997	1.1%
July 1997	0.9%
August 1997	0.7%
September 1997	0.5%
October 1997	0.4%
November 1997	0.2%

**Federal Employees
Retirement System
(FERS) Cost-of-Living
Adjustments Summary**

Eligible annuitants who retired under the Federal Employees Retirement System (FERS) also will get a COLA in their January 2, 1998, annuity payments. (See *The CSRS and FERS Handbook for Personnel and Payroll Offices*, Chapter 2, subchapter 2B.) The full increase will be 2.0 percent. When the CPI increase is less than 3 percent, the FERS COLA is the CPI increase, or 2 percent, whichever is less. Since the CPI increase last year was 2.1 percent, as explained in the section on CSRS Cost-of-Living Adjustments, the full FERS COLA is 2.0 percent.

**Proration of FERS
Retiree's First COLA**

For FERS retirees who have not been on the annuity roll for a full year, COLA's will be prorated as explained in the section on **Proration of CSRS Retiree's First COLA**. The table below shows the actual prorated percentage increase that applies to FERS retirees according to the month in which the annuity began to accrue.

Annuity Began	Amount of Increase
December 1996 or earlier -	2.0%
January 1997	1.8%

February 1997	1.7%
March 1997	1.5%
April 1997	1.3%
May 1997	1.2%
June 1997	1.0%
July 1997	0.8%
August 1997	0.7%
September 1997	0.5%
October 1997	0.3%
November 1997	0.2%

**FERS Annuitants
Who Are Under Age
62**

FERS COLA's apply to retirees who were age 62 as of December 1, 1997 as well as --

- disability annuitants (see section below on **Disability Annuitants**),
- military reserve technicians whose separation from technician service results from loss of military membership on account of disability after attaining age 50 and completing 25 years of service, and
- employees who retired under the special provisions for law enforcement officers, firefighters, or air traffic controllers.

Disability Annuitants

COLA's are payable to disability annuitants without regard to their age. However, COLA's are not payable on FERS disability annuities during the annuitant's first year in receipt of benefits if the annuity rate is based on 60 percent of average salary. COLA's are payable, however, during the first year if the annuitant's rate is based on an earned benefit or the annuity is redetermined because the annuitant has reached age 62.

**FERS Survivor
Annuitants**

Spouse, former spouse, insurable interest, and child survivor annuitants under FERS are entitled to COLA's regardless of age. After survivor annuities (other than children's annuities, which are based on CSRS COLA rules) commence, they are subject to FERS COLA rules, even if they are based on an annuity that includes a CSRS component.

The supplementary annuity paid to certain surviving spouses and former spouses is also increased by FERS COLA's.

**FERS Employee
Annuitants with a
CSRS Component**

Certain FERS retirees are entitled to a CSRS annuity computation for a portion of their annuity. This CSRS component is subject to CSRS COLA rules. The full CSRS COLA effective December 1, 1997, is 2.1 percent. The CSRS COLA rules also provide for proration of the increase depending on the number of months the annuity was payable before the effective date of the increase. CSRS COLA rules do not require the annuitant to be age 62. Therefore, the CSRS portion of the annuity may increase even though no FERS increase is payable.

**FERS Annuity
Supplement**

The retiree annuity supplement, if any, is not increased. COLA's apply only to a retiree's basic annuity.

**COLA Increase on
the FERS Basic
Employee Death
Benefit**

Under FERS, a basic lump-sum benefit is payable to the qualifying surviving spouse (or former spouse) of a deceased employee who had at least 18 months creditable service. The law provides that this lump-sum benefit is an amount equal to 50 percent of the employee's final annual pay (or average pay, if higher), plus \$15,000, adjusted for COLA's under CSRS rules. The latter amount, including prior COLA's, is currently \$21,335.30. Since the CSRS COLA this year is 2.1 percent, the benefit increases to \$21,783.34 for any case in which the employee dies on or after December 1, 1997, and before December 1, 1998.

**Reemployed
Annuitants -- CSRS
and FERS**

a. Reemployed annuitants, both CSRS and FERS, whose salaries are being reduced by the amount of their annuity must take an additional reduction in salary earned on or after December 1, 1997. The following rules apply:

- For CSRS annuitants, the reduction is equal to the 2.1 percent increase (or applicable prorated portion if this is the first increase) in the annuity.
- For annuitants whose annuity was computed solely under FERS rules (i.e., the annuity does not include a CSRS component), the reduction is equal to the 2.0 percent FERS increase (or applicable prorated portion).
- For reemployed FERS annuitants whose annuity includes a CSRS component (see section above on FERS Employee Annuitants With a CSRS Component), the additional reduction in their salary is determined by applying CSRS COLA rules to the CSRS portion of their annuity. If no FERS COLA is payable, the additional reduction in salary for a reemployed annuitant is based only on the increase in the CSRS portion.

b. To determine the new monthly rate to be used for reducing the reemployed annuitant's salary, adjust the old monthly rate upward by the appropriate percentage and round to the next lowest dollar. An adjustment must be at least one dollar. The new monthly salary reduction must be remitted to the Civil Service Retirement and Disability Fund via Retirement and Insurance Transfer System (RITS) or the SF 2812. If you cannot determine the reemployed annuitant's new rate, you may contact the U.S. Office of Personnel Management (OPM). Your inquiries must include the annuitant's full name, date of birth, and retirement claim (CSA) or social security number.

**Internet and/or
Email Address**

At this time, due to concerns about security over the internet, we will not accept or respond to agency requests for individual annuity adjustment amounts by email. We will review this procedure when internet security is more assured.

Written Inquiries

U.S. Office of Personnel Management
Retirement Operations Center
P. O. Box 45
Boyers, Pennsylvania 16017-0045

Telephone Inquiries Retirement Information Office
(888) 767-6738

Telecommunication Device for the Deaf (TDD) (800) 578-5707

1998 Interest Rate The Department of the Treasury has informed OPM that the variable interest rate applied for certain purposes under both the Federal Employees Retirement System and the Civil Service Retirement System is 6.75 percent for calendar year 1998.

Prior Interest Rates	
Before 1948	4%
1948 - 1984	3%
1985	13%
1986	11.125%
1987	9%
1988	8.375%
1989	9.125%
1990	8.75%
1991	8.625%
1992	8.125%
1993	7.125%
1994	6.25%
1995	7.00%
1996	6.875%
1997	6.875%

The interest on the FERS lump sum credit in 1984 was 11 percent.

Interest Rates Under FERS Rules

The 6.75 percent interest rate for 1998 and the interest rates shown in the **Interest Rate Chart** above, apply to all deposits or refunds under FERS rules and FERS lump-sum credit death benefit payments.

For CSRS employees, and for employees who transferred from CSRS to FERS with entitlement to have part of their benefits computed under CSRS rules, those interest rates also apply to:

- redeposits, if the agency or OPM received the refund application after September 30, 1982;
- deposits for noncontributory service performed after September 30, 1982;
- deposits for post-1956 military service; and
- interest paid on voluntary contributions.

Fixed Interest Rate

A fixed 3 percent interest rate will continue to be applied in the following cases:

- refunds of CSRS deductions;
- redeposits (including CSRS component redeposits) if the agency or OPM received the refund application before October 1, 1982;
- deposits for noncontributory CSRS service performed before October 1, 1982; and
- CSRS deductions withheld from the first of the month after an employee has performed sufficient service to entitle him or her to the maximum annuity (excess deductions).

Significant Social Security Figures for 1998

On October 16, 1997, the Social Security Administration published a Fact Sheet that listed 1998 figures that are significant for retirement matters. A copy of that Fact Sheet is available at Social Security Administration's Internet site, Social Security Online at (<http://www.ssa.gov/press/1998fact.htm>). These figures are included here for the convenience of agency personnel.

Social Security Maximum Wage Base

The Social Security maximum taxable wage base for 1998 is \$68,400.

Hospital Insurance Contribution Base	The limitation on the amount of earnings subject to the Hospital Insurance contribution was repealed (Public Law 103-66, section 13207). The Hospital Insurance tax is due on the total remuneration paid during the year.
Average Total Wages	The amount of average total wages for 1996 is \$25,913.90.
Bend Points	The dollar amounts, or bend points, used in the benefit formula for workers who become eligible for benefits in 1998, and in the formula for computing maximum individual benefits for 1998, are \$477 and \$2,875.
FERS Retiree Annuity Supplement Earnings Limit	The Social Security earnings limitation for 1998 is \$9,120.00. Any FERS annuitant who is receiving a FERS annuity supplement (unless he or she is under age 55 and retired under one of the special provisions for law enforcement officers, firefighters, air traffic controllers, or military reserve technicians separated for loss of military membership) will have his or her annuity supplement offset in 1999 by \$1.00 for every \$2.00 over this amount earned in 1998.
TSP Referral Limit	For Tax Year 1998, the Internal Revenue Service has announced that the annual limit on elective deferrals will be \$10,000. For purposes of the Thrift Savings Plan (TSP), the term "elective deferrals" refers to Employee Contributions, which are made on a tax, deferred basis. The 1998 elective deferral limit may be obtained from the TSP Web site (www.tsp.gov).



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