IHC Financial Group, Inc.
Independence Holding Group

2015 Retiree COLA to be 1.7 Percent

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www.fedweek.com

The federal retirement COLA in January will be 1.7 percent, determined by a 12-month measuring period that ended with September inflation figures announced today (October 22). All those retired under CSRS get the COLA, while FERS retirees don't receive a COLA until age 62 unless they took disability retirement or retired from an occupation subject to mandatory retirement, which applies mainly to air traffic controllers, firefighters and most law enforcement officers. Both CSRS and FERS survivor beneficiaries get a COLA regardless of age. FERS COLAs are smaller in certain circumstances that won't apply for 2015 since the inflation figure fell below 2 percent. COLAs are prorated for those who have not been on the annuity rolls for at least 12 months by the time of the payout.

COLA, Raise Are Two Separate Things

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The annual COLA announcement always sets off a round of confusion in the federal community involving raises and COLAs, in part because many employees refer to their raises as COLAs. The raise and the COLA do not affect each other. The COLA goes to those who are retired, and is an automatic adjustment linked to the consumer price index for urban wage earners. A raise goes to active employees and is determined through the congressional budget process. For January 2015, a 1 percent across-the-board raise, with no locality component, is in progress but is not yet finalized. Under federal pay law, the raise is supposed to be linked to the employment cost index, which is a measure of private sector wage growth—not living costs—and that is based on a different measuring period than the CPI figure used for the COLA. That formula has not been followed for years, though. The 1 percent figure would however continue the momentum for paying raises annually again after the 1 percent raise in January of this year broke a three-year salary rate freeze.

Pay Gap Holds Steady

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The Federal Salary Council has concluded that federal employees on average earn 35.18 percent less than their private sector counterparts, almost identical to the 35.37 percent figure reported last year. The gap is the largest in theSan Francisco-San Jose area at 49.48 percent and the smallest in thecatchall "rest of the U.S." pay zone at 15.85 percent. In Washington-Baltimore, the area with the largest number of employees except for the catchall area, the figure is 42.96 percent. The council—an advisory body of union officials and compensation experts—produced those figures at its annual meeting and recommended those raises to the President’s Pay Agent, consisting of the heads of OPM, OMB and Labor, which then reports to the President. However, as a practical matter, annual raises—or lack of them, in the case of 2011-2013—are on the negotiating table each year in the congressional budget process and the "pay gap" figure has not been a determining factor.