TESTIMONY OF SHARON WARREN, PRESIDENT, COLA DEFENSE COMMITTEE OF ANCHORAGE, INC.
ON BEHALF OF ALL ALASKA COLA DEFENSE COMMITTEES
BEFORE THE UNITED STATES SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS, SUBCOMMITTEE ON THE OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA

May 29, 2008

Good Afternoon, Chairman Akaka, Ranking Member Voinovich and Members of the Senate Subcommittee on the Oversight of Government Management, the Federal Workforce, and the District of Columbia.

My name is Sharon Warren, President of the COLA Defense Committee of Anchorage, Inc. and representing all three Alaska COLA Defense Committees—Anchorage, Fairbanks and Juneau. On behalf of the Alaska COLA Committees, I would like to thank you for allowing us to express our views regarding the proposed plan for eliminating the non-foreign area Cost-of-Living Allowance (COLA) and including the non-foreign areas in the Federal Employees Pay Comparability Act (FEPCA) locality pay program.

Established in 1985, the COLA Defense Committees in Alaska are non-profit advocacy corporations dedicated to protecting the interests of Federal and Postal employees regarding their compensation, including any allowances, differentials, or supplements to their pay. There are nearly 13,000 Federal and Postal employees in Alaska who receive COLA.

The Administration seeks to transition from the COLA program to the locality pay program in the non-foreign areas. The purpose for this change is to have a uniform approach and simplified pay structure for Federal employees, equity in pension benefits, parity on base pay increases, and improvement in recruiting and retaining employees in non-foreign areas. As you know, COLA is not included in the calculation of retirement benefits whereas locality pay is included. This results in Alaskan retirees receiving significantly less retirement pay than their counterparts in the 48 states.

The Administration also seeks to limit their exposure to future litigation arising out of the non-foreign COLA program. The non-foreign COLA program has given rise to much controversy and several lawsuits, which have cost the United States government hundreds of millions of dollars. Currently, the Office of Personnel Management is working with non-foreign COLA Committee representatives through the Survey Implementation Committee to carry out the 2000 Caraballo Settlement Agreement. This Survey Implementation Committee has been extended several times and is due to expire December 31, 2008. I along with Denise Hernandez, President of the COLA Defense Committee of Fairbanks serve on the Survey Implementation Committee with the Office of Personnel Management to assist in implementing the settlement terms that would improve the non-foreign COLA program.

The concept of transitioning from the COLA Program to the locality pay program in the non-foreign areas has been discussed for a number of years. In 2003, all Alaska COLA Defense Committees were pursuing the concept to transition to locality pay. Finally, after four years, the proposal was included in the President's budget and submitted to Congress in May 2007. The proposal was again in the President's 2008 budget. We support the Administration's proposal to transition from COLA to locality pay. However, modifications to certain provisions of their proposal are necessary to ensure Federal and Postal employees are treated fairly and equitably.

The key elements of the Administration's proposal are:

- Discontinue COLA Surveys;

- For non-US Postal Service employees—
    - Freeze COLA rates as of date of enactment;
    - Extend locality pay to non-foreign areas (for Alaska this is a seven year phase in);
    - Offset and reduce COLA rates by 85% of locality pay percentage to reduce impact on take home pay;
    - Abolish COLA payments once rates reach zero.
- For most US Postal Service employees, freeze COLA rates as of date of enactment.

Based on the 1996 locality pay surveys in Hawaii and Alaska requested by the Alaska and Hawaii Senators, Alaska was projected to receive the highest locality pay rate in the nation. The OPM estimated Alaska's locality pay rate at 38 percent. Since 1996, the method of calculating locality pay has changed and now Alaska is estimated to have a locality pay rate of 27.68 percent.

Under the Administration's proposal there is a seven-year phase in provision. Federal employees in Alaska will not receive full locality pay rates in the first year. Instead, Alaska would receive one-seventh of the Rest of the United States (RUS) locality pay rate which is 13.18 percent (2008), or 1.9 percent. During the first year, OPM is to determine the proper locality pay rate. In the second year Alaska would receive 2/7 of the designated locality pay rate and an additional 1/7 each year thereafter until full locality pay is achieved. Employees in Alaska are being asked to work up to nine additional years in their career to achieve retirement benefits similar to those received by employees in the 48 states.

At the two March 2008 town hall meetings in Anchorage and Fairbanks, Alaska, which were sponsored by Senator Stevens to gain the views of the Federal employees in Alaska, the overwhelming response by the employees was phasing in locality pay over seven years was not acceptable. Since 2003, Alaska Federal employees have been waiting for the opportunity to convert from COLA to locality pay. The reason provided by the Office of Personnel Management that the RUS rate should be used the first year is Alaska is not a separate locality pay area under FEPCA and it would take the government a year to determine appropriate locality pay rates for Alaska. While it is true Alaska has not been designated a separate locality pay area and specific locality pay rates therefore have not been set for Alaska, the Office of Personnel Management was nevertheless able to estimate the locality pay rate for Alaska when they provided information at Senator Akaka's request for the locality pay calculator.

The 85 percent factor used in calculating the adjusted COLA does not protect employees' take-home pay for the majority of our employees. It assumes an unrealistically low federal income tax of 15 percent, and does not account for other mandatory deductions (e.g., Social Security and Medicare taxes).

The Administration's proposal protects Postal employees pay by permanently freezing their Territorial COLA (TCOLA) at the rates in effect at the time the law is passed. The Postal TCOLA is equal to the COLA of Federal white-collar employees. Postal employees have expressed concern over being the only employees left receiving a non-taxable income (TCOLA) and becoming "low hanging fruit only to be plucked at another time." Postal employees would like to stay under the umbrella of all Federal employees in COLA areas, as they are now. Senate Bill 3013 successfully keeps Postal employees under that umbrella.

Where there are shortfalls in the Administration's proposal, Senate Bill 3013, the Non-Foreign Area Retirement Equity Assurance Act of 2008 or the Non-Foreign AREA Act of 2008) seeks to address these issues by:

- Using an adjustment factor of 65 percent instead of 85 percent to implement the "sense of Congress" that the act should not result in a decrease in the take home pay of an employee;
- Addressing the special situation of employees receiving Special Pay Rates;
- Phasing in the conversion to locality pay over a three year, rather than a seven-year period;
- Allowing Postal employees to benefit with their counterparts in the non-foreign areas regarding retirement benefits;
- Allowing employees to elect to have additional basic pay for annuity computation during the phase in period and allowing employees to pay into the Civil Service Retirement and Disability Retirement Fund; and
- Allowing employees to choose whether they want to be covered by the provisions of the act

Overall Senate Bill 3013 addresses many of the concerns expressed by employees in Alaska, except for retirees.

Both the Administration's proposal and Senate Bill 3013 are silent regarding retirement benefits for Federal employees who have retired from Federal service. Apparently, there is a reluctance to include provisions in legislation to recognize the retirement inequities experienced by retired Federal employees. I am sure Congress never intended to have such disparity of retirement benefits between the Federal employees in the non-foreign areas and the 48 states. However, implementation of FEPCA drastically reduced the retirement benefits of Federal employees in Alaska. This impact on retired Alaska Federal employees has continued each year because the cost of living adjustments in retirement annuities are based upon the percentage of the annuity received. Federal employees who retired from Alaska were dedicated to Federal service and it cost them dearly in their retirement benefit. We recognize retirees have not paid into the retirement program. Section 7 of Senate Bill 3013 could be amended to include language for allowing retirees to pay into the Civil Service Retirement and Disability Retirement Fund or by an offset withheld from the increased retirement benefit.

The Alaska COLA Committees support Senate Bill 3013. We understand that any legislation will not be perfect for everyone. The Alaska COLA Committees believe it is important to have a fair and equitable resolution with respect to both pay compensation and the retirement inequities that have existed since the implementation of FEPCA.

Thank you again, Mr. Chairman, for the opportunity to testify before your Subcommittee, and for your time and attention to this important matter. This concludes my prepared remarks. If you need any additional feedback or have questions, we would be glad to offer our assistance.