Annuitant COLAs 101

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Cost of living adjustments, or COLAs, are vital to a long and financially sound retirement. COLAs are adjustments to a Federal Employees Retirement System (FERS) or Civil Service Retirement System (CSRS) annuity payment based on inflation. As you are probably aware, inflation is a quantitative measure of the rate at which the average price of goods and services increase over a period. Sort of like how a can of pop used to cost 5 cents, but now it costs $1.50.

Without COLAs, our annuities would continue to pay the same amount, month after month and year after year, even as the cost of goods and services rises. This effectively means that our annuities would buy less and less as inflation continues. And that's where COLAs come in. By providing a COLA to our annuities that (ideally) keeps pace with inflation, our annuities would buy the same amount or value of goods and services on the day we retire as it would buy on our 90th birthday.

The most common way that inflation is measured is through a metric called the Consumer Price Index (CPI). The U.S. Bureau of Labor Statistics reports the CPI on a monthly basis. By comparing the current CPI to a past CPI, we can determine the amount of inflation between the two periods.

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The Office of Personnel Management (OPM) is the government agency that administers the FERS and CSRS plans. So, when it is time to calculate and apply COLAs to retirees' annuities, it is OPM that does the calculation and adjusts the payments. OPM uses the CPI-W, which is the CPI for "Urban Wage Earners and Clerical Workers." During each year, the CPI-W for the third calendar quarter of the most recent year a COLA was determined is compared to the average CPI-W for the third calendar quarter of the current year adjusted to the nearest one-tenth of 1 percent. The resulting percentage increase, if any, represents the amount of the COLA.

The above-mentioned calculation is straight forward for CSRS annuitants. But for those under FERS there is an additional step. If the increase in CPI is less than 2 percent, the COLA is the same amount. If the increase in the CPI is 2 to 3 percent, the COLA is 2 percent. And if the CPI increase is over 3 percent, the COLA is the CPI increase minus 1 percent.

CSRS annuitants' first COLA is prorated and based on the number of months from the annuity commencement date to the effective date of the first COLA after the annuity commencement date. COLAs are effective every Dec. 1. So, one would receive one-twelfth of the COLA for each month they received an annuity prior to Dec. 1 (but not to exceed 12 months).

The proration rules get a little trickier for FERS annuitants. This is because FERS annuitants do not receive any COLA if under age 62 (exception for FERS disability annuitants). FERS annuitants who are 62 and have an annuity which commenced at least one year prior to reaching age 62 would get the full COLA.

Overall, FERS annuitants do not receive full COLAs. Between having to wait until age 62 to start receiving COLAs, they don't always receive 100 percent of the CPI increase. Over the short term, this doesn't make a huge impact. But year after year, these little cuts to the COLA start to add up. As our retirement systems are laws and created through legislation, we are not able to improve these COLAs through our collective-bargaining process. This is one reason it's so important for not just annuitants, but also future annuitants, to be active in politics and consider voting for representatives who support the federal workforce. We've worked a career knowing and expecting a modest retirement. The least our representatives can do is to honor that promise, especially after we've upheld our end.

Survivor annuities for a spouse, former spouse, insurable interest and children also receive COLAs. The amount will be calculated as already discussed depending on which system (CSRS or FERS). Although children's annuities are not subject to proration, annuities for a spouse, former spouse and insurable interest are subject to proration where applicable.

As COLAs are effective Dec. 1 of each year (if applicable), the adjustment will be apparent in your following Jan. 1 payment which represents the month of December. If you want to follow the current COLA projections, head over to nalc.org/workplace-issues/retirement for periodic updates. As of February, the projection for the 2021 COLA is 0.7 percent.