

CHAPTER 2. COST OF LIVING ADJUSTMENTS

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Subchapter 2A. CSRS

Part 2A1. General Information

Subpart 2A1.1. Overview and Definitions

Section 2A1.1-1. Overview

A. Organization of This Chapter

This subchapter covers CSRS annuity cost-of-living adjustments (COLAs) based on increases in the Consumer Price Index (CPI).

B. Topics Covered

This subchapter contains:

- The definition of COLA and terms related to COLAs;
- The computation of COLAs;
- The proration of the initial COLA; and
- Additional information associated with COLAs.

C. Organization of Subchapter

This subchapter has three parts with a total of four sections.

Part	Name of Part	Page
2A1	General Information	1
2A2	Computation	3
2A3	Proration	5
2A4	Survivor Annuities	7
2A5	Miscellaneous	8

NOTE: Subchapter 2B about COLAs for annuitants under FERS begins on page 9.

D. Statement of Authority

This subchapter and its contents are based on the laws and regulations cited below.

- Section 8340 of title 5, United States Code
- Part 831 of title 5, Code of Federal Regulations

*Section 2A1.1-2. Definitions***A. Consumer Price Index (CPI)**

A measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Information on the Consumer Price Index may be found here: <https://www.bls.gov/cpi/>.

B. Cost-Of-Living Adjustment (COLA)

The percent increase between the third quarter average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for a given year and the previous peak third quarter average of the CPI-W. The increase in the CPI-W must be at least one-tenth of one percent (0.1%) for a COLA to occur.

C. Effective Date

Cost-of-living adjustments are effective on December 1st of the year in which an annuitant becomes eligible. The adjustment appears in the annuity check on the first business day of January.

D. Annuity Commencing Date

The date an annuity first begins to accrue.

*Part 2A2. Computation***Subpart 2A2.1. Computation of COLAs***Section 2A2.1-1. Explanation***A. COLA Rate**

To determine the COLA, the average 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 1/10 of 1 percent. The resulting percentage increase, if any, represents the amount of the COLA. If the increase in the CPI-W is at least one-tenth of one percent (0.1), there will be a COLA. If the CPI-W increases by less than 0.05 percent, or if the CPI-W decreases, there won't be a COLA.

EXAMPLE:

<u>Year</u>	<u>CPL-W</u>
2018	246,352
2017	<u>239,668</u>
Difference	6,684
<hr/>	
<u>6,684</u> x 100 = 2.78	
239,668	

COLA rate = 2.8% (adjusted to the nearest 1/10 of 1%) effective December 1, 2018

B. COLA Increase

1. An individual's new gross monthly annuity, reflecting the COLA increase, is calculated by multiplying the old gross monthly annuity by the COLA factor (1 plus the COLA rate):

Gross monthly annuity x (1 + rate expressed as a decimal).

2. The gross monthly annuity is the annuity payable after adjustments have been made, when applicable, for all of the following:
 - Reduction for survivor benefits;
 - Reduction for alternative annuity;
 - Reduction for early retirement;
 - Reduction for unpaid deposit service performed before October 1, 1982; and
 - Reduction for unpaid redeposit for service ending prior to March 1, 1991.

EXAMPLE:

COLA = 2.8%

Gross monthly annuity before COLA	\$1775.00
Multiply by COLA factor (1 + .028)	<u>x 1.028</u>
Gross monthly annuity after COLA (rounded to next lower dollar)	\$1,824.00

NOTE 1: The gross monthly annuity is always rounded to the next lower dollar. However, the gross monthly annuity after a COLA must reflect an increase of at least \$1.00.

NOTE 2: The COLA is applied before withholdings are made for taxes, health benefits premiums and life insurance premiums.

*Part 2A3. Proration***Subpart 2A3.1. Proration***Section 2A3.1-1 Proration of First COLA***A. General Rule**

The amount of an annuitant's first COLA is prorated. The proration is based on the number of months from the annuity commencement date to the effective date of the first COLA after the annuity commencement date.

1. Retirees receive one-twelfth of the applicable cost-of-living increase for each month that they are in receipt of an annuity before December 1st, not to exceed 12 months.
2. To receive the full December 1st increase, a retiree's commencing date for retirement can be no later than December 31st of the previous year.

B. Procedure to Determine the Prorated COLA

From the chart below, determine the number of months on the annuity roll at the time of the COLA. Divide the COLA rate by 12, and multiply the answer by the number of months on the annuity roll. Round the answer to the nearest 1/10 of 1 percent. The result is the prorated COLA.

$$\frac{\text{COLA rate}}{12} \times \text{Number of months on annuity roll} = \text{Prorated COLA}$$

If Monthly Annuity Commences During --	Number of Months on Roll is --
December of previous year	12
January	11
February	10
March	9
April	8
May	7
June	6
July	5
August	4
September	3
October	2
November	1

EXAMPLE 1: If a retiree's commencing date is December 1, 2016 the retiree does not receive a COLA increase in the January 2017 check but does receive the full December 2017 COLA increase in the January 2018 annuity check.

EXAMPLE 2: COLA = 2.8%
Annuity Commences August 1
Number of months on roll - 4

Gross monthly annuity before COLA	\$2,000.00
Prorated COLA (2.8/12 x 4 =)	0.93%
Gross monthly annuity after COLA	\$2,018
(\$2,000 x (1 + .009) =)	

IMPORTANT: The proration applies only to the annuitant's first COLA

*Part 2A4. Survivor Annuities***Subpart 2A4.1. Survivor Annuities***Section 2A4.1-1 Survivor Annuities***A. Spouse, Former Spouse, Insurable Interest**

An annuity payable to an annuitant's survivor normally commences on the day after death.

1. If the retiree received the first COLA, the survivor annuity is not subject to proration.
2. If the retiree had not received the first COLA, the survivor's first COLA is prorated based on the commencing date of the retiree's annuity.
3. The proration rules also apply to the first COLA paid to the survivor of an employee who died in service.

Here are two examples that illustrate the rules listed above.

	If Employee Retires	Then Dies	Survivor COLA Is:
Example 1:	June 1	July 14	Subject to proration. (The retiree died before receiving a COLA increase on December 1st.)
Example 2:	June 1	January 10	Not subject to proration with the next COLA increase. (Retiree received prorated increase effective December 1 st following commencement of the annuity.)

NOTE: While the retiree is living, the potential survivor benefit (payable to the spouse, former spouse and/or insurable interest) receives the same COLA increases the annuitant receives.

B. Children

Children's annuities are increased by COLAs effective December 1 and are payable in the January annuity check. However, unlike other annuitants' COLAs, children's COLAs are not subject to proration.

The COLA is based on the annuity payable before any deductions are made (for example, health benefits premiums).

Part 2A5. Miscellaneous Information

Subpart 2A5.1. Miscellaneous COLA

Section 2A5.1-1 Miscellaneous Provisions

A. Voluntary Contributions

The law does not provide for COLAs for additional annuities purchased at retirement by voluntary contributions.

B. Reemployed Annuitants

A reemployed annuitant's pay is offset by the amount of the annuity (see [Chapter 100, Reemployed Annuitants](#)). When a COLA is applied to the annuity, the employing office must make an additional salary offset. The agency determines the new monthly rate to be used for reducing the salary by adding the COLA (full or prorated, as appropriate) to the previous rate. The additional offset in pay is effective from December 1 of such year.

C. COLA Cap

An annuity may not be increased by a COLA to an amount that exceeds the greater of:

- The current payable rate for GS-15, step 10; or
- An amount equal to an individual's final pay (or average pay, if higher) increased by all cumulative average GS pay increases from the commencing date of the annuity to the effective date of the COLA.

The cumulative GS increases are used in all cases, even though the individual may have been employed under a different pay system.

This cap applies to any COLA increases to an annuity. In no instance is an annuity that exceeds the cap reduced.

Subchapter 2B FERS

Part 2B1 General Information

Subpart 2B1.1. General FERS Information

Section 2B1.1-1 Overview

A. Introduction

This subchapter covers FERS annuity cost-of-living adjustments (COLAs) based on increases in the Consumer Price Index (CPI).

This subchapter explains how FERS differs from CSRS. It refers readers to the CSRS rule that applies or gives the FERS rule if it is different.

Subchapter 2B also provides information regarding the determination of COLAs for transfer employees with a CSRS component.

B. Organization of Subchapter

This FERS subchapter has six parts:

Part	Name of Part	Page
2B1	General Information	9
2B2	Computation	10
2B3	Proration	12
2B4	Transfer Employees With a CSRS Component	13
2B5	Survivor Annuities and Death Benefit	14
2B6	Miscellaneous	15

C. Applicable CSRS Provision

The following section of subchapter 2A applies to FERS employees:

- [Section 2A1.1-2](#): Definitions

D. Statement of Authority

This subchapter is based on the laws and regulations cited below:

- Section 8462 of title 5, United States Code
- Part 841, of title 5, Code of Federal Regulations

*Part 2B2 Computation***Subpart 2B2.1. FERS Computation***Section 2B2.1-1 Computation of COLAs***A. Eligibility**

OPM FERS COLAs do not apply to annuitants who are under age 62 as of December 1, except:

1. Disability annuitants, including military reserve technicians who are medically disqualified for military service or the rank required to hold their positions. However, disability annuitants who are receiving 60 percent of their high-3 average salary do not receive COLAs.
2. Military reserve technicians whose separation from technician service resulted from loss of military membership or rank on account of disability after attaining age 50 and completing 25 years of service.
3. Employees who retired under the special provisions for law enforcement officers, firefighters, or air traffic controllers.
4. Spouse, former spouse, and insurable interest survivor annuitants.

NOTE 1: Under FERS, children's annuities are increased under CSRS provisions rather than FERS provisions.

NOTE 2: Under CSRS rules, retirees may receive a COLA at any age.

B. COLA Rate

As under CSRS, the amount of a FERS COLA is the difference between the average CPI-W for the third calendar quarter of the most recent year a COLA was determined and the average CPI-W for the third calendar quarter of the current year adjusted to the nearest 1/10 of 1 percent. The resulting percentage increase, if any, represents the amount of the COLA. If the increase in the CPI-W is at least one-tenth of one percent (0.1), there will be a COLA. If the CPI-W increases by less than 0.05 percent, or if the CPI-W decreases, there won't be a COLA.

Generally, FERS COLAs are 1 percent less than the increase in the CPI-W as determined under the law. However, if the CPI-W increase is between 2 and 3 percent the FERS COLA is 2 percent. If the actual increase is 2 percent or less, the FERS COLA matches the CPI-W increase.

The following table summarizes the above information.

If the Increase in CPI-W Is	Then the Annual FERS COLA Is
Up to 2.0%	Same as CPI
2.0% to 3.0%	2.0%
Above 3.0%	CPI increase minus 1.0%

EXAMPLE:

Year	CPI-W
2018	246,352
2017	<u>239,668</u>
Difference	6,684

$$\frac{6,684}{239,668} \times 100 = 2.78\% \text{ (CPI increase)}$$

FERS COLA Rate = 2.0% (adjusted to the nearest 1/10 of 1%) effective
December 1, 2018

C. COLA Increase

The CSRS rules in [section 2A2.1-1](#) on how to determine the COLA increase generally apply under FERS; however, the gross monthly annuity used in the FERS COLA computation is defined a little differently. The FERS gross monthly annuity is the annuity payable after the following adjustments (when applicable) have been made:

- Reduction for survivor benefits;
- Reduction for alternative annuity;
- Reduction for early retirement under MRA + 10 and early deferred provisions.

NOTE 1: The CSRS reduction for pre-October 1, 1982, deposit service does not apply to FERS annuities that do not have a CSRS component.

NOTE 2: See section 2B6.1-1, paragraph A for the rules covering disability retirees.

D. Disability Annuitants

When a disability annuity increases because of a COLA, the reduction (if any) for the Social Security benefit also increases. (See [Chapter 60, Disability Retirement](#).)

*Part 2B3 Proration***Subpart 2B3.1. FERS Proration***Section 2B3.1-1 Proration of First COLA***A. General Rule**

The rules in section 2A3.1-1 on proration of the first COLA for CSRS apply under FERS.

For FERS annuitants who are not eligible to receive a COLA during their first year (or more) on the annuity roll, the initial COLA they receive (after becoming eligible) is the full COLA without proration. The annuitants who fall in this category are:

- Annuitants under age 62 whose annuity commences at least 1 year prior to reaching age 62;
- Disability annuitants whose annuity benefits are based on 60 percent of the high-3 average salary.

EXAMPLE 1: Bill retired at age 59. He will become 62 in July 2017. In January 2018, he will receive a non-prorated COLA.

EXAMPLE 2: Jane is a disability retiree. From July 1, 2016 to June 30, 2017, she received 60 percent of her high-3 average salary. On July 1, 2017 she began receiving 40 percent of her high-3 average salary. In January 2018, she will receive a non-prorated COLA.

Part 2B4 Transfer Employees With a CSRS Component

Subpart 2B4.1. Transfer Employees

Section 2B4.1-1 Transfer Employees With a CSRS Component

A. Transfer Employees With a CSRS Component

Certain FERS annuitants are entitled to a CSRS annuity computation for a portion of their annuity. The CSRS portion of the annuity is subject to CSRS COLA rules, rather than FERS COLA rules.

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.

Part 2B5 Survivor Annuities and Death Benefit

Subpart 2B5.1. Survivor Annuities

Section 2B5.1-1 Survivor Annuities

A. Spouse, Former Spouse, Insurable Interest

1. An annuity payable to a FERS retiree's survivor normally commences on the day after death.
2. FERS survivor annuities are increased by COLAs after they commence even though the survivor annuitant is not yet age 62. The proration rules in [Part 2B2](#) apply to the first COLA paid to the survivor of a retiree who dies before having been retired for a year or to the survivor of an employee who died in service.

EXAMPLE 1: Retiree is age 59 when he retires in June 2015. He dies at age 61 in June 2017. The retiree had not received a COLA because he had not reached age 62. In December 2017, the survivor annuity receives a full COLA because the retiree's annuity had begun more than a year earlier.

EXAMPLE 2: Same as Example 1 except that retiree dies in November 2015. In December 2015 the survivor annuity (which commenced in November) receives a prorated COLA based on the fact that the deceased retiree's annuity commenced in June. (Half of the regular COLA would be payable because 6 months had passed.)

3. When a retiree dies, the potential survivor benefit calculated at retirement is increased by the total percent that the retiree's annuity had increased since retirement. If the retiree had received no COLA increases because he or she was under age 62, there is no increase in the survivor benefit. On the effective date of the next COLA, the survivor annuity increase is determined based on the length of time that has passed since the annuity was first payable to the deceased retiree. If at least one year has passed since the deceased retiree's annuity commenced, the survivor annuity is increased by a full COLA. If less than one year has passed, the COLA is prorated based on the retiree's annuity commencing date.
4. FERS survivor annuities do not have CSRS components. The entire survivor annuity is subject to FERS COLA rules, even if it is based on a basic employee annuity that includes a CSRS component.

B. Children

Cost-of-living adjustments for children's annuities under FERS are determined under CSRS rules. (See [Section 2A4.1-1](#)).

C. Lump-Sum Death Benefit

The FERS basic employee death benefit (see [Chapter 70, Spouse Benefits -Death of an Employee](#)) is an amount equal to 50 percent of the employee's final pay (or average pay, if higher) plus \$15,000 adjusted for COLAs under CSRS rules. See subchapter 2C for lump-sum benefit amounts for each COLA increase.

*Part 2B6. Miscellaneous Information***Subpart 2B6.1. Miscellaneous COLA***Section 2B6.1-1 Miscellaneous Provisions***A. Disability Annuitants**

1. COLAs are not payable on disability annuities during the annuitant's first year on the annuity roll if the annuity rate is based on 60 percent of the high-3 average salary. If a retiree is receiving a disability annuity and they are found recovered or restored to earning capacity, they are removed from the rolls. When the annuitant returns to the rolls the annuity is restored at 60 percent of the high-3 average salary for the first year and the annuitant is not eligible for a COLA during this period.
2. COLAs are payable during the first year if:
 - a. The annuitant's rate is based on an earned benefit; or
 - b. The annuity is recomputed because the annuitant has reached age 62.

NOTE: The Social Security offset also does not increase by COLAs during the first year.

3. After the first year, both the disability annuity and the Social Security offset increase under the FERS COLA rules.
4. Even though the disability annuity may include 5 or more years of creditable CSRS service, the disability annuity is increased entirely under FERS COLA rules, unless:
 - a. The annuitant's rate is based on an earned benefit that includes a CSRS component; or
 - b. The annuity is recomputed because the annuitant has reached age 62 and includes a CSRS component.

B. Reemployed Annuitants

The CSRS rule in section 2A5.1-1 for reemployed annuitants applies under FERS.

Subchapter 2C Job Aids*Part 2C1 COLA Job Aids***Subpart 2C1.1. Copies of Job Aids***Section 2C1.1-1 COLAs for Retirees***CSRS AND FERS COLAs FOR FEDERAL RETIREES**

COLA Year	Effective Date	CSRS	FERS
2019	2018 December 1	2.8%	2.0%
2018	2017 December 1	2.0%	2.0%
2017	2016 December 1	0.3%	0.3%
2016	2015 December 1		No COLA
2015	2014 December 1	1.7%	1.7%
2014	2013 December 1	1.5%	1.5%
2013	2012 December 1	1.7%	1.7%
2012	2011 December 1	3.6%	2.6%
2011	2010 December 1		No COLA
2010	2009 December 1		No COLA
2009	2008 December 1	5.8%	4.8%
2008	2007 December 1	2.3%	2.0%
2007	2006 December 1	3.3%	2.3%
2006	2005 December 1	4.1%	3.1%
2005	2004 December 1	2.7%	2.0%
2004	2003 December 1	2.1%	2.0%
2003	2002 December 1	1.4%	1.4%
2002	2001 December 1	2.6%	2.0%
2001	2000 December 1	3.5%	2.5%
2000	1999 December 1	2.5% ¹	2.0%
1999	1998 December 1	1.3%	1.3%
1998	1997 December 1	2.1%	2.0%
1997	1996 December 1	2.9%	2.0%
1996	1995 ² December 1	2.6%	2.0%
1995	1994 ³ December 1	2.8%	2.0%
1994	1993 ⁴ December 1	2.6%	2.0%
1993	1992 December 1	3.0%	2.0%
1992	1991 December 1	3.7%	2.7%
1991	1990 December 1	5.4%	4.4%
1990	1989 December 1	4.7%	3.7%

COLA Year	Effective Date	CSRS	FERS
1989	1988 December 1	4.0%	3.0%
1988	1987 December 1	3.9%	2.9%
1987	1986 December 1	1.3%	
1986	1985 ⁵ December 1		No COLA
1985	1984 December 1	3.5%	
1983	1983 April 1	3.9% / 3.3% ⁶	
1982	1982 March 1	8.7%	
1981	1981 March 1	4.4%	
1980	1980 September 1	7.7%	
1980	1980 March 1	6.0%	
1979	1979 September 1	6.9%	
1979	1979 March 1	3.9%	
1978	1978 September 1	4.9%	
1978	1978 March 1	2.4%	
1977	1977 September 1	4.3%	
1977	1977 March 1	4.8%	
1976	1976 March 1	5.4%	
1975	1975 August 1	5.1%	
1975	1975 January 1	7.3%	
1974	1974 July 1	6.3%	
1974	1974 January 1	5.5%	
1973	1973 July 1	6.1%	
1972	1972 July 1	4.8%	
1971	1971 June 1	4.5%	
1970	1970 August 1	5.6%	
1970	1969 November 1	5.0%	
1969	1969 March 1	3.9%	
1968	1968 May 1	3.9%	
1967	1967 January 1	3.9%	

¹ This COLA was revised from 2.4 to 2.5 in 2001. See [RIL 2001-09](#).

² Payment of these COLAs was delayed until March 1 of the following year. See [RIL 84-36](#).

³ Payment of these COLAs was delayed until March 1 of the following year. See [RIL 84-36](#).

⁴ Payment of these COLAs was delayed until March 1 of the following year. See [RIL 84-36](#).

⁵ COLA cancelled; originally 1.3%.

⁶ 3.3% for non-disabled employee annuitants under age 62.

*Section 2C1.1-2 Effect of COLAs on the Basic Employee Death Benefit*TABLE OF COLA ADJUSTMENTS TO \$15,000 PORTION OF
FERS BASIC EMPLOYEE DEATH BENEFIT**A. Effect of COLAs on the Basic Employee Death Benefit**

Under FERS, a basic lump sum benefit is payable to the surviving spouse (or former spouse) of a deceased employee with at least 18 months creditable service. The law provides that this lump sum benefit is an amount equal to half the employee's final annual pay (or average pay, if higher) plus \$15,000, adjusted for COLAs under CSRS rules. CSRS COLA increases to the \$15,000 (through the December 1, 2014, COLA) are as follows:

YEAR	CSRS COLA	\$15,000 INCREASES TO
1987	4.2%	\$15,630.00
1988	4.0%	\$16,255.20
1989	4.7%	\$17,019.19
1990	5.4%	\$17,938.23
1991	3.7%	\$18,601.94
1992	3.0%	\$19,160.00
1993*	2.6%	\$19,658.16
1994*	2.8%	\$20,208.59
1995*	2.6%	\$20,734.01
1996	2.9%	\$21,335.30
1997	2.1%	\$21,783.34
1998	1.3%	\$22,066.52
1999**	2.5%	\$22,618.18
2000**	3.5%	\$23,409.82
2001	2.6%	\$24,018.48
2002	1.4%	\$24,354.74
2003	2.1%	\$24,866.19
2004	2.7%	\$25,537.58
2005	4.1%	\$26,584.62
2006	3.3%	\$27,461.91
2007	2.3%	\$28,093.53
2008	5.8%	\$29,722.95
2009***	No COLA	\$29,722.95
2010***	No COLA	\$29,722.95
2011	3.6%	\$30,792.98

YEAR	CSRS COLA	\$15,000 INCREASES TO
2012	1.7%	\$31,316.46
2013	1.5%	\$31,786.21
2014	1.7%	\$32,326.58
2015***	No COLA	\$32,326.58
2016	0.3%	\$32,423.56
2017	2.0%	\$33,072.03
2018	2.8%	\$33,998.05

NOTES:

*P.L. 103-66 delayed the effective date of the December 1, 1993, 1994 and 1995 CSRS and FERS cost-of-living adjustments. Each COLA that would have been effective on December 1 and reflected in the January 2 or 3 payment, was instead effective on March 1 and reflected in the April 1 payment. If an employee died on or after March 1, 1996, the Basic Employee Death Benefit was half of the final annual pay (or average salary, if higher), plus \$20,734.01. If the employee died from December 1, 1995, through February 28, 1996, the basic employee death benefit payable was half of the final annual pay (or average pay, if higher), plus \$20,208.59.

**COLA for December 1, 1999, originally paid at 2.4%, due to under reporting of the 1999 Consumer Price Index (CPI). Correct rate should have been 2.5%. BEDB rates originally paid based on incorrect CPI (2.4%) were:

For deaths from 12/1/99 through 11/30/00, \$22,596.12

For deaths from 12/1/00 through 11/30/00 \$23,386.98

***BEDB amount did not increase on 12/01/2009, 12/01/2010, or 12/01/2015 since no CSRS COLAs were payable.