

Frequently Asked Questions: CONUS COLA

1. What is the intent of CONUS COLA?

ANSWER: As a requirement of their Service, members of the Uniformed Services move about the country. During their careers, members are likely to be assigned to a variety of low, moderate, and high-cost locations. Private sector pay scales tend to reflect local living costs in U.S. locations, but military pay tables do not.

Prior to 1995, the Basic Allowance Housing (BAH), which was introduced in the early 1980s as the Variable Housing Allowance (VHA), was the only pay element adjusted for regional cost differences. In the FY 1995 National Defense Authorization Act, Congress approved the CONUS Cost-of-living Allowance (CONUS COLA), to provide compensation for variations in non-housing costs in the continental United States.

An area is considered high cost if the non-housing cost of living for that area exceeds the threshold percentage. The law (37 USC 403b) authorizes the Secretary of Defense, in consultation with the Administering Secretaries, to establish a threshold not lower than 108% of the national average non-housing cost of living. For the first year, 1995/6, the Secretary of Defense set the threshold at 109%; for all subsequent years, the threshold has been 108%.

2. What is the “threshold” and how is it determined?

ANSWER: For those military members assigned to the highest cost areas in the continental US, there is a significant loss of purchasing power, and, for most members, this loss will not be balanced by a subsequent assignment to a low-cost area. In determining a threshold for CONUS COLA, essentially defining what is meant by a high-cost area, the objective is to (a) maintain the member’s purchasing power over his/her career and (b) do this in the most cost-effective manner. Again, the purpose is not to maintain a member’s purchasing power at any given location, but over his/her career. Consequently, not every area that has an index over 100 would receive an allowance.

The 7th Quadrennial Review of Military Compensation (QRMC) had recommended a threshold of 105, which, they felt, considers career movements and career purchasing power. However, Congress mandated that the threshold should be set not lower than 108%.

When setting the first COLA threshold, the Secretary of Defense’s Quality of Life initiative considered a number of alternative uses of scarce funds, such as reducing housing cost absorption and increasing the availability of housing. After weighing the relative values of these competing uses of funds, it was determined that a threshold of 109 was the most cost effective at that point in time, in that it would generate substantial benefits for the dollars allotted. The amount of the COLA payment was computed based on the difference between the COLA

index for a particular area and 109. In subsequent years, the Service Secretaries lowered the threshold for payment of COLA to 108%.

The term threshold is similar to the term absorption used in explaining out-of-pocket housing expenses members incurred under BAH. Under CONUS COLA, when the threshold is set at 108, members absorb at least 8% of the average expenses above Standard City, or the national average cost of living. This means that members assigned to locations where the average local costs are greater than 8% above the national average for non-housing costs and the threshold for that year has been set at 108, will receive CONUS COLA to offset their additional expenses. For example, an area with a COLA index of 115 would be eligible for a COLA payment of 7%. An area with a COLA index of 107.9 would not receive CONUS COLA.

3. How much does a 1% CONUS COLA put in the average member's paycheck monthly?

ANSWER: CONUS COLA varies by pay grade, years of service (YOS), and whether or not the member has dependents. For example, for calendar year 2005, at a location with 1% CONUS COLA, an E-6 with dependents and 10 YOS would receive \$30/month; an O-3 with dependents and 10 YOS would receive \$38/month. The amount of CONUS COLA that will be paid for a specific location by rank and number of years of service can be found on the Per Diem Committee Home Page at <https://secureapp2.hqda.pentagon.mil/perdiem>.

4. How does PDTATAC obtain the data used to determine which locations qualify for CONUS COLA?

ANSWER: Data must be assembled from several sources: (1) Local market price data is purchased from a private contractor; (2) information pertaining to the availability of commissaries and exchanges is provided by their parent organizations; (3) average savings information generated by commissaries and exchanges is also provided by the parent organizations; and (4) CONUS-wide surveys, roughly every three years, determined the utilization rate and the savings generated by availability of commissaries and exchanges.

5. Why did you contract out the data collection?

ANSWER: The law governing CONUS COLA stipulates that the data is to be provided by private contractor. When the CONUS COLA program was implemented, the 7th Quadrennial Review of Military Compensation (QRMC) concluded that Runzheimer International was the best among the private sector sources. We continue to employ Runzheimer International, a recognized leader in providing US and world wide cost-of-living data, to collect the US cost-of-living data that is used to determine CONUS COLA indexes. The data for facilities is provided by the commissary and exchange systems.

6. How are the indexes calculated?

ANSWER: The contractor provides us with cost-of-living differentials for a given family size and level of income. For 2005, that was for a family of 4, with an income of \$50,000 (Service equivalent average is an E-6 with 10

years of service). The contractor develops a Standard City that represents average expenditures for a typical civilian household. Data is then purchased for more than 350 locations to calculate the COLA indexes. The contractor provides the cost of purchasing this same basket of goods in the requested locations. An index is developed representing the percentage of income needed to purchase the same items in each location relative to the cost for the Standard City. The availability of military commissaries and/or exchanges in proximity to a Uniformed Service member's place of duty implies that expenditures for the member will be lower than for a comparable civilian. The absence of base facilities increases the likelihood, but certainly does not guarantee, that the location will qualify for CONUS COLA.

7. What are the geographical units for CONUS COLA?

ANSWER: The basic geographical area for the CONUS COLA program is the Military Housing Area (MHA). MHA boundaries are established by the BAH program and applied to that program as well as CONUS COLA. Over 98 percent of Service members assigned to duty in the continental US are assigned to duty in areas designated as MHAs. Representatives from each of the Uniformed Services meet periodically to review the boundaries and determine which zip codes to incorporate in each of the more than 350 MHAs. MHAs are normally named for a military installation or city.

Other, non-MHA areas, are known as County Cost Groups (CCGs). These are locations outside of metropolitan areas and major installations. For purposes of CONUS COLA, specific locations are normally associated with a larger geographical unit such as a county, but they may be grouped within a region, or with other towns on the basis of similarities in location such as distance from larger urban areas or major transportation routes.

8. How does availability of military facilities affect the indexes?

ANSWER: The Defense Commissary Agency (DeCA), the Army/Air Force Exchange Service (AAFES), the Navy Exchange (NEX), the Marine Corps Exchange (MCEX), and the Coast Guard Exchange (CGEX) provide us with an inventory of their facilities which offer a full range of goods. Facilities with zip codes which fall within an MHA are considered to be available to all Service members assigned to that MHA.

The percentage of goods and services purchased in commissaries and exchanges is obtained from a CONUS living pattern survey conducted once every 3 years. According to the latest survey, the average commissary usage was 50.5 percent; average usage of exchanges for applicable items was 32%.

Average commissary and exchange savings are also obtained from the parent services. DeCA's most recent estimate is that the average commissary savings including the impact of sales taxes is 31.3%. The average weighted savings for exchange facilities with sales taxes, compared to local retail outlets is 18.6%.

Savings from commissaries and exchanges are based upon actual utilization rates rather than assumed rate of 100%. While commissaries and exchanges are valued resources, we recognize that they do not meet all the shopping needs of Service members, particularly those who reside off-post (approximately of the Members), and those with families. Further, a significant portion of the market basket of goods and services (i.e., car insurance, telephone service, transportation services, food away from home, and recreational events) are not available from the military facilities.

Standard City's expenditures on goods and services, including food and medical care, are adjusted to reflect the presence of commissary and/or exchange facilities. Savings attributable to the presence of these facilities were equal to the expenditure for that category of goods, multiplied by the savings rate, multiplied by the utilization rate.

For example, based on an average income of \$50,000, the total Standard City expenditure for items typically purchased at a military exchange in 2005 was calculated at \$6,355. The savings rate for the average exchange was 18.6% and the utilization rate was 32%. Therefore, the savings due to availability of the exchange was $\$6,355 \times .186 \times .32 = \378 . Similarly, estimated commissary savings during this period were \$560.

The presence or absence of facilities has a major impact on the calculation of the CONUS COLA index. Base closings have the potential to change an area's index. A facility is considered to be located in the area if it is open and available to members during a calendar year.

Even without these facilities, the vast majority of locations do not qualify for CONUS COLA. This is because the average expenses do not meet the established threshold of 108 % above the national average cost of living. That is, non-housing costs in most locations are not greater than 8% above the Standard City for the standard market basket of goods and services.

9. How are the indexes calculated?

ANSWER: The initial step in calculating a CONUS COLA index for each area is to combine the expenditures for individual items into major commodity groups.

Income taxes (federal, state, and local), FICA, and miscellaneous expenditures are the two categories for which the value remains constant, regardless of location.

Individual locality expenditures for the other categories – transportation, goods and services (which includes food at home, food away from home, tobacco, alcohol, furnishings and household operations, clothing, domestic service, medical care, personal care, and recreation), and sales taxes are compared to those of the Standard City, resulting in a relative percentage. Deductions are made for commissaries and exchanges, if available. An additional adjustment is made for the Basic Allowance for Subsistence (BAS), since the BAS is an allowance for food for the

military member. For CC 2005, BAS of \$3206 was deducted from the sum of the expenditure for taxes, transportation, goods and services and miscellaneous expenditures.

The adjusted total expenditures for the area, after deductions, is divided by the adjusted total expenditures for Standard City, which is also adjusted for deductions. The results are the CONUS COLA index for that location. The 2005 indexes range from a low of 92.059 for Grand Forks, ND, to a high of 122.118 for Staten Island, NY.

10. Where will CONUS COLA be paid in calendar year 2005?

ANSWER: The Department of Defense, in consultation with the other Uniformed Services, considered all locations where our members are stationed in the continental United States (CONUS). For 2005, there are 41 locations (39 MHAs and 2 counties outside MHAs) at which members are paid CONUS COLA. Most of these locations are defined by the same boundaries as the BAH program, e.g., Military Housing Areas. However, all areas not in an MHA where members are known to be assigned were considered as well. These areas are geographically smaller, usually have smaller military populations and are designated in the following charts as non-MHA locations.

A list of current CONUS COLA locations is available at <https://secureapp2.hqda.pentagon.mil/perdiem/cclocs05.pdf>.

11. Were we considered in the CONUS COLA survey?

ANSWER: All areas in CONUS where Service members are assigned were considered in determining which locations would receive CONUS COLA.

12. How did you compute the CONUS COLA to determine payable locations? Is this something we can compute locally?

ANSWER: Our independent contractor surveyed hundreds of locations within the CONUS and provided the Department of Defense with raw data. These data were then adjusted for military facilities. You would not have the comparative data to determine CONUS COLA locally.

13. Can we provide you with local cost data or do anything to be considered for a survey in our area?

ANSWER: No, since all areas in CONUS where Service members are assigned are considered annually in determining which locations would receive CONUS COLA. We anticipate completing the next update in December 2005, to be effective 1 January 2006.

14. Does residing on or off base play a factor in the CONUS COLA formula?

ANSWER: Residing on or off base makes no difference. CONUS COLA is based on average, not individual, purchasing patterns by members.

15. Do transportation costs consider insurance or taxes on a private vehicle?

ANSWER : Yes, and maintenance costs, financing costs, cost of gasoline, and all other major costs of owning and driving a private vehicle.

16. If public transportation is available, is it considered in determining transportation costs?

ANSWER: No, except for New York City and Staten Island in conjunction with owning one private vehicle. Two vehicles are considered for all other locations.

17. Will CONUS COLA be paid as a daily rate—i.e., for 28 (or 29) days in February, but for 31 days in October and 30 days in June?

ANSWER: No. CONUS COLA is a monthly entitlement based on a 30 day month, the same as BAH.

18. How does the contractor adjust for significant local changes such as a significant rise in taxes or base closures?

ANSWER: The contractor measures local market costs in each area, including local sales taxes. The opening or closing of Government facilities, and their impact on average costs, are part of the annual survey of costs. Since reviews and surveys will be conducted annually, changes that occur in the local economy, due to such things as base closures, will be measured, and the results will be reflected in our analysis of data for the following year.

19. How often will CONUS COLA be updated?

ANSWER: By law (37 USC 403b), CONUS COLA will be updated once a year. New rates go into effect January 1.

20. Does a member have to be receiving BAS to be entitled to CONUS COLA?

ANSWER: No.

21. Why is CONUS COLA paid to members without dependents living in barracks/aboard ship at 100%, while at 47% overseas?

ANSWER: While the two COLA programs are similar in their goal to offset the higher cost of living at a particular location, they are not identical. Both overseas and CONUS COLA compare the local cost of living to the average cost of living in the CONUS, but the thresholds are different. For overseas COLA, the threshold is 101%. For CONUS COLA, the threshold is not lower than 108%. Considering that the majority of CONUS COLA locations are at the 1% rate, most enlisted members without dependents will receive \$25 or less per month in CONUS COLA.

22. Why is the CONUS COLA taxed while overseas COLA is not?

ANSWER: Overseas COLA was implemented around 1947, prior to legislation requiring a tax on new allowances. Since 1986, all new allowance programs must be taxed. To offset this, CONUS COLA rates incorporate an 18 % increase to cover the average income tax.

23. Do taxes include state, sales, local or property taxes?

ANSWER: Taxes include a fixed amount for state and federal taxes – the Standard City, or average, rate. Sales tax is location specific. Property tax is covered under BAH.

24. How do we treat the situation where the member is stationed in one state, but declares another station as his/her residence for tax purposes?

ANSWER: The member's permanent duty station zip code governs.

25. Is CONUS COLA deducted from authorized periods of temporary lodging expenses (TLE)?

ANSWER: No, it is not, due to the complexity of taxes, and the TLE ceiling.

26. Why might a location's rate for 2005 be lower than it was in 2004?

ANSWER: A fresh look is taken each year at prices in the local area compared to Standard City prices. An index drops because prices increased at a lesser rate in that location than in the average US location. In some locations, one or more US Government facilities may have become available since the last survey. In other locations, prices may drop from one year to the next.

27. Does the cost of CONUS COLA come at the expense of other programs?

ANSWER: Funding for CONUS COLA is a separate budget item. Funding of CONUS COLA will never be at the expense of other programs.

28. By law, a member with a reserve component is not entitled to CONUS COLA for the first 139 days of a call or order to active duty. Does this also apply to reserve members serving on active duty?

ANSWER: Yes, unless the call or order to active duty is in support of a contingency operation. The law is clear that 140 days on active duty is required. However, the call or order to active duty in support of a contingency operation may allow reservists to qualify for CONUS COLA.

29. Why isn't the actual number of dependents of the member used instead of "with" and "without dependent" when paying CONUS COLA rates?

ANSWER: Most of our allowances, such as BAH, are based on "with" or "without dependent" rates, rather than the actual number of dependents. However, cost-of-living data is purchased for CONUS COLA based on a family

size of 4. This provides a slight benefit to junior enlisted members who normally have smaller families, but are more disadvantaged by assignments to high cost areas

30. Will CONUS COLA be paid when the member and the family are in different locations (e.g., Exceptional Family Member, arduous sea duty)?

ANSWER: CONUS COLA is generally paid at the "with dependent" rate based on the location of the member's permanent duty station (PDS), as with BAH. When the family does not reside with the member, CONUS COLA may be based on the residence of the member's primary dependent if (a) the member is serving an unaccompanied tour outside CONUS or (b) the member's PDS is in CONUS, but a Secretarial determination is made that, because of conditions at the member's PDS, the dependent must reside separately from the member.

31. What do you mean by "primary" dependent?

ANSWER: Primary dependent is defined by law (37 USC 403b) and includes the member's spouse, or, if there is no spouse, then one of the member's dependent children designated by the member.

32. Is CONUS COLA payable based on the location of the primary dependents who go away to college or to a boarding school?

ANSWER: There are two key points to consider in answering this question. First, the student must meet the definition of primary dependent for the member to qualify for CONUS COLA at the "with dependent" rate. Second, the separation must be due to (a) the member serving an unaccompanied tour outside CONUS or (b) if the member's PDS is in CONUS, a Secretarial determination is issued indicating that because of conditions at the member's PDS, the primary dependent must reside separately from the member. In such cases CONUS COLA may be based on the location of the primary dependent at school. It would be payable at the "with dependent" rate.

33. Is CONUS COLA applicable for secondary dependents?

ANSWER: No. By law, only primary dependents are considered for entitlement to "with dependents" CONUS COLA.

34. When the member is stationed outside of CONUS and the family remains in the CONUS, is the member authorized CONUS COLA for the dependents in addition to any COLA the member may be authorized at the overseas PDS?

ANSWER: Yes. Generally, the member would draw CONUS COLA at the "with dependent" rate if the primary dependent resides in a designated high cost area within CONUS. The member is also entitled to overseas COLA at the "without dependent" rate. The family remaining at the CONUS COLA location must include the primary dependent.

35. If a member is assigned to a PDS located in a high cost area and the family resides in a non-high cost area, does this affect the member's CONUS COLA entitlement?

ANSWER: The member will draw "with dependent" CONUS COLA for the location of the PDS, regardless of where the primary dependents are located, unless a determination is issued indicating that, because of conditions at the member's PDS, the dependents must reside separately from the member.

36. Does CONUS COLA remain in effect during periods of field duty?

ANSWER: Yes. CONUS COLA remains in effect, without change, during all periods of TDY, including periods of field duty.

37. Is CONUS COLA paid during terminal leave?

ANSWER: Yes, as with BAH.