



OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

NOV 28 2005

PERSONNEL AND
READINESS

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY
(HUMAN RESOURCES)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(MILITARY PERSONNEL POLICY)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(FORCE MANAGEMENT AND PERSONNEL)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Fiscal Year 2006 Adjustments to Military Retired and Retainer Pay, Survivor Annuities and Premiums, and Related Matters

This memorandum and attachments provide detailed guidance regarding Cost-of-Living Adjustments (COLAs) and other computation procedures applicable to military retired and retainer pay and survivor annuities. Retired pay and survivor entitlements are to be adjusted and computed as prescribed herein.

The attachment specifies COLAs for retired and retainer pay, survivor annuities, and premium determinations effective December 1, 2005, unless specified otherwise. These COLAs reflect the cost-of-living as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers through the third calendar quarter of 2005 (July, August, September 2005).

Further, note the potential to apply the provisions of title 10, United States Code, section 1401a(f)(1), to retirements that would otherwise be computed using basic pay rates effective January 1, 2006. These new pay rates will reflect a 3.1 percent increase over the rates for 2005. Such members may be entitled to more retired pay using the 2005 pay rates increased by the 3.4 percent partial COLA instead of using the increased pay rates with more service credit. Under the above provisions, inversions to retired pay entitlements are prevented by allowing computation of retired pay based on retirement at an earlier date. In such computations, the grade and service credit must be those applicable on the earlier date being used. Also, the retiree must meet the retirement eligibility requirements as of the earlier date. The Defense Finance and Accounting System must ensure proper comparative values are considered to determine a member's correct retired pay.

A handwritten signature in black ink, appearing to read "W. Carr".

William J. Carr
Acting Deputy Under Secretary
(Military Personnel Policy)

Attachments:
As stated

cc:

Deputy Chief of Staff for Personnel, U.S. Army

Deputy Chief of Naval Operations (Manpower and Personnel), U. S. Navy

Deputy Chief of Staff for Personnel, U.S. Air Force

Deputy Chief of Staff Manpower and Reserve Affairs, U.S. Marine Corps

Assistant Commandant for Human Resources, U.S. Coast Guard

Director, Division of Commissioned Personnel, U.S. Public Health Service

Director, National Oceanic and Atmospheric Administration Corps Operations-NC

DoD Chief Actuary

Deputy General Counsel (Fiscal)

**ADJUSTMENTS IN RETIRED/RETAINER PAY,
SURVIVOR ANNUITIES AND PREMIUMS
AND RELATED FACTORS**

The following Cost-of-Living Adjustments (COLAs) are effective December 1, 2005, based on the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) through September 2005. The term "retired pay" includes retainer pay and the term "members" includes former members.

COLAs for Retired Pay

1. The retired pay COLA for those who first became a member of a Uniformed Service before September 8, 1980, is specified according to the effective date of the active duty basic pay rate used to compute their retired pay as follows:

<u>Retired Pay Based on Rates of Pay Effective</u>	<u>Percent Increase</u>	<u>10 U.S.C. Authority</u>
Before January 1, 2005	4.1 percent	1401a(b)(2)
January 1, 2005	3.4 percent	1401a(c)

2. The retired pay COLA for those who first became a member of a Uniformed Service on or after September 8, 1980, is specified according to the effective date of their retirement as follows:

<u>Retirement Effective:</u>	<u>Percent Increase</u>	<u>10 U.S.C. Authority</u>
Before January 1, 2005	4.1 percent	1401a(b)(2)
January 1 - March 31, 2005	3.4 percent	1401a(d)
April 1 - June 30, 2005	2.8 percent	1401a(d)
July 1 - September 30, 2005	1.4 percent	1401a(d)
October 1 - December 31, 2005	0.0 percent	1401a(d)

3. The retired pay COLA for those who first became a member of a Uniformed Service on or after August 1, 1986, who elected to receive a bonus under the provisions of section 322 of title 37 United States Code is specified according to the date of their retirement as follows:

<u>Retirement Effective</u>	<u>Percent Increase</u>	<u>10 U.S.C. Authority</u>
Before January 1, 2005	3.1 percent	1401a(e)
January 1 - March 31, 2005	2.6 percent	1401a(e)
April 1 - June 30, 2005	2.3 percent	1401a(e)
July 1 - September 30, 2005	1.1 percent	1401a(e)
October 1 - December 31, 2005	0.0 percent	1401a(e)

COLAs for Survivor Annuities

4. Retired Serviceman's Family Protection Plan annuities payable on November 30, 2005, under the provisions of subchapter I of chapter 73, title 10, United States Code, to the spouse or child of a member who died on or before March 20, 1974: **4.1 percent** (ref: 10 U.S.C. 1434 (e)).
5. Annuities under the Survivor Benefit Plan (SBP) and Reserve Component Survivor Benefit Plan (RCSBP) under the provisions of subchapter II of chapter 73, title 10, United States Code; Supplemental SBP annuities under the provisions of subchapter III of chapter 73, title 10, United States Code; and benefits payable under the provisions of section 5 of Public Law 96-402, will be increased by the same percentage specified in paragraphs 1, 2, or 3 above by which the retired pay of the person providing the annuity would have been increased at such time if the person were alive and otherwise entitled to such pay. (ref: 10 U.S.C. 1451 (g) and 10 U.S.C. 1457(d)(1)).
6. COLAs for supplemental annuities paid to certain low income widows of members who were deceased before November 1, 1953: **4.1 percent** (ref: section 653 (c), Public Law 100-456).
7. Annuities for Certain Military Surviving Spouses (ACMSS) payable monthly under the provisions of section 644, Public Law 105-85, November 18, 1997, are increased **4.1 percent** from \$197.51 to \$205.61 effective December 1, 2005. (ref: P.L. 105-85, sec 644).

Increase in the SBP Low-Cost Premium Threshold

8. Previous amounts with respect to which the 2.5 percent factor of the SBP premium (cost) formula apply are adjusted effective December 1, 2005, in conjunction with the adjustments in retired pay made under the provisions of section 1401a of title 10, United States Code (ref: 10 U.S.C. 1452(a)(4)(B)). A table of such amounts is included as attachment 1-1.
9. The amount with respect to which the 2.5 percent factor of the SBP premium (cost) is applied for participation upon retirement will be increased **3.1% effective January 1, 2006**, from \$616 to **\$635** (premium for this coverage would be **\$15.87** and the breakeven base amount would be **\$1360.71**) (ref: 10 U.S.C. 1452(a)(4)(A) and the scheduled increase in rates of basic pay of 3.1% effective January 1, 2006 under 37 U.S.C 1009).

Adjustment of Death Gratuity

10. The amount of the death gratuity provided under section 1478(a) of title 10, United States Code, is increased, effective January 1, 2006, from \$12,420 to **\$12,805**. The \$100,000 death gratuity amount provided under 10 U.S.C. 1478(c) is not adjusted. (10 U.S.C. 1478(a),(c), and (d) and 37 U.S.C. 1009)

Adjustments in Social Security Factors

11. The so-called social security offset (reduction) in SBP and RC-SBP annuities under the provisions of section 1451(e)(4) of title 10 U.S.C. is based upon figures published by the Social Security Administration (SSA). This year's changes are published in the Federal Register, October 25, 2005 (Volume 70, Number 205, pages 61677-61683). The following changes affect the annuity computations of the SBP/RC-SBP social security offset for those individuals with an eligibility year of 2006 and later:

a. Average of total wages for 2004 is \$35,648.55.

b. The maximum taxable wages pertaining to Old Age Survivor and Disability Insurance (OASDI) benefits is increased from \$90,000 in 2005 to \$94,200 in 2006. There is no maximum taxable wage base for the Hospital Insurance (HI) portion (1.45 percent) of social security taxes. Earnings in 2006 above \$94,200 will not be used to determine survivor benefits.

c. The Primary Insurance Amount (PIA) for benefit eligibility in 2006 is computed on the basis of the Average Indexed Monthly Earnings (AIME) as follows:

90 percent of the first \$656 of the AIME, plus
32 percent of the AIME over \$656 and through \$3,955 plus
15 percent of the AIME over \$3,955.

**LOW-COST THRESHOLD FOR SBP COST COMPUTATIONS
EFFECTIVE AS OF DECEMBER 1, 2005**

**FOR THOSE WHO FIRST BECAME MEMBERS
OF A UNIFORMED SERVICE**

**BEFORE SEP 8, 1980
If Retired Pay
Is Based On**

<u>Rates</u>	<u>Then the</u>
<u>Effective:</u>	<u>Amount Is:</u>
Pre 1 Oct 8	\$538.61
1-Oct-85	\$554.78
1-Jan-87	\$560.87
1-Jan-88	\$546.86
1-Jan-89	\$545.36
1-Jan-90	\$539.99
1-Jan-91	\$529.17
1-Jan-92	\$536.53
1-Jan-93	\$540.19
1-Jan-94	\$539.12
1-Jan-95	\$537.53
1-Jan-96	\$537.70
1-Jan-97	\$536.54
1-Jan-98	\$542.68
1-Jan-99	\$554.42
1-Jan-00	\$565.03
1-Jul-00	\$561.49
1-Jan-01	\$574.65
1-Jul-01	\$566.70
1-Jan-02	\$597.09
1-Jan-03	\$621.92
1-Jan-04	\$636.12
1-Jan-05	\$636.94
1-Jan-06*	\$635.00

*Effective 1-Jan-06

**AFTER SEPTEMBER 8, 1980
BUT BEFORE AUGUST 1, 1986**

<u>If Retirement Effective</u>	
<u>During The</u>	<u>Then the</u>
<u>Period Of:</u>	<u>Amount Is:</u>
Pre 1 Oct 85	\$538.61
Oct 85 Thru 86	\$554.78
During 1987	\$560.87
During 1988	\$546.86
During 1989	\$545.36
During 1990	\$539.99
During 1991	\$529.17
During 1992	\$536.53
During 1993	\$540.19
During 1994	\$539.12
During 1995	\$537.53
Jan - Mar 96	\$537.70
Apr - Jun 96	\$532.45
Jul - Sep 96	\$527.21
Oct - Dec 96	\$524.59
Jan - Mar 97	\$536.54
Apr - Jun 97	\$533.89
Jul - Sep 97	\$531.79
Oct - Dec 97	\$529.66
Jan - Mar 98	\$542.68
Apr - Jun 98	\$542.14
Jul - Sep 98	\$539.45
Oct - Dec 98	\$537.32
Jan - Mar 99	\$554.42
Apr - Jun 99	\$552.24
Jul - Sep 99	\$546.82
Oct - Dec 99	\$543.02

After Dec 31, 05*

*Effective 1-Jan-06

AFTER JULY 31, 1986

<u>If Retired</u>		<u>If Retired</u>	
<u>During The</u>	<u>Then the</u>	<u>During The</u>	<u>Then the</u>
<u>Period Of:</u>	<u>Amount Is:</u>	<u>Period Of:</u>	<u>Amount Is:</u>
Aug - Sep 86	\$487.28	Jan - Mar 97	\$527.57
Oct - Dec 86	\$487.28	Apr - Jun 97	\$528.00
Jan - Mar 87	\$503.91	Jul - Sep 97	\$524.95
Apr - Jun 87	\$498.07	Oct - Dec 97	\$524.42
Jul - Sep 87	\$491.74	Jan - Mar 98	\$538.94
Oct - Dec 87	\$485.94	Apr - Jun 98	\$539.45
Jan - Mar 88	\$482.23	Jul - Sep 98	\$537.85
Apr - Jun 88	\$490.76	Oct - Dec 98	\$537.32
Jul - Sep 88	\$485.97	Jan - Mar 99	\$554.42
Oct - Dec 88	\$480.66	Apr - Jun 99	\$552.24
Jan - Mar 89	\$496.12	Jul - Sep 99	\$546.82
Apr - Jun 89	\$492.25	Oct - Dec 99	\$543.02
Jul - Sep 89	\$484.53	Jan - Mar 00	\$565.03
Oct - Dec 89	\$482.16	Apr - Jun 00	\$559.53
Jan - Mar 90	\$496.92	Jul - Sep 00	\$561.49
Apr - Jun 90	\$488.75	Oct - Dec 00	\$557.59
Jul - Sep 90	\$485.44	Jan - Mar 01	\$574.65
Oct - Dec 90	\$478.26	Apr - Jun 01	\$569.57
Jan - Mar 91	\$490.18	Jul - Sep 01	\$566.70
Apr - Jun 91	\$488.71	Oct - Dec 01	\$566.70
Jul - Sep 91	\$486.80	Jan - Mar 02	\$605.45
Oct - Dec 91	\$484.35	Apr - Jun 02	\$605.45
Jan - Mar 92	\$501.93	Jul - Sep 02	\$600.06
Apr - Jun 92	\$500.43	Oct - Dec 02	\$597.09
Jul - Sep 92	\$496.95	Jan - Mar 03	\$621.92
Oct - Dec 92	\$494.46	Apr - Jun 03	\$615.80
Jan - Mar 93	\$510.78	Jul - Sep 03	\$613.98
Apr - Jun 93	\$508.28	Oct - Dec 03	\$611.53
Jul - Sep 93	\$506.73	Jan - Mar 04	\$636.12
Oct - Dec 93	\$504.71	Apr - Jun 04	\$630.54
Jan - Mar 94	\$514.28	Jul - Sep 04	\$621.26
Apr - Jun 94	\$513.23	Oct - Dec 04	\$619.40
Jul - Sep 94	\$510.75	Jan - Mar 05	\$636.94
Oct - Dec 94	\$507.19	Apr - Jun 05	\$633.25
Jan - Mar 95	\$518.30	Jul - Sep 05	\$624.62
Apr - Jun 95	\$515.72	Oct - Dec 05	\$616.00
Jul - Sep 95	\$512.66	After Dec 31, 05*	\$635.00
Oct - Dec 95	\$511.64	Effective 1-Jan-06	
Jan - Mar 96	\$523.07		
Apr - Jun 96	\$519.46		
Jul - Sep 96	\$515.34		
Oct - Dec 96	\$514.33		