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 2007 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, 2006, 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 2006
(July, August, September 2006).

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, 2007. These new pay rates will reflect a 2.2 percent increase
over the rates for 2006. Such members may be entitled to more retired pay using the 2006
pay rates increased by the 2.8 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
Service must ensure proper comparative values are considered to determine a member’s
correct retired pay.

[Signature]
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, 2006, based on the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) through September 2006. 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:

<table>
<thead>
<tr>
<th>Rates of Pay Effective</th>
<th>Percent Increase</th>
<th>10 U.S.C. Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before January 1, 2006</td>
<td>3.3 percent</td>
<td>1401a(b)(2)</td>
</tr>
<tr>
<td>January 1, 2006</td>
<td>2.8 percent</td>
<td>1401a(c)</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Retirement Effective</th>
<th>Percent Increase</th>
<th>10 U.S.C. Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before January 1, 2006</td>
<td>3.3 percent</td>
<td>1401a(b)(2)</td>
</tr>
<tr>
<td>January 1 - March 31, 2006</td>
<td>2.8 percent</td>
<td>1401a(d)</td>
</tr>
<tr>
<td>April 1 - June 30, 2006</td>
<td>2.4 percent</td>
<td>1401a(d)</td>
</tr>
<tr>
<td>July 1 - September 30, 2006</td>
<td>.6 percent</td>
<td>1401a(d)</td>
</tr>
<tr>
<td>October 1 - December 31, 2006</td>
<td>0.0 percent</td>
<td>1401a(d)</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Retirement Effective</th>
<th>Percent Increase</th>
<th>10 U.S.C. Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before January 1, 2006</td>
<td>2.3 percent</td>
<td>1401a(e)</td>
</tr>
<tr>
<td>January 1 - March 31, 2006</td>
<td>2.0 percent</td>
<td>1401a(e)</td>
</tr>
<tr>
<td>April 1 - June 30, 2006</td>
<td>1.9 percent</td>
<td>1401a(e)</td>
</tr>
<tr>
<td>July 1 - September 30, 2006</td>
<td>.3 percent</td>
<td>1401a(e)</td>
</tr>
<tr>
<td>October 1 - December 31, 2006</td>
<td>0.0 percent</td>
<td>1401a(e)</td>
</tr>
</tbody>
</table>
COLAs for Survivor Annuities

4. Retired Serviceman’s Family Protection Plan annuities payable on December 1, 2006, 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: 3.3 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: 3.3 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 3.3 percent from $205.61 to $212.40 effective December 1, 2006. (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, 2006, 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)). The Defense Finance and Accounting Service performs the calculations to determine actual premium based on the individual circumstances of each case.

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 2.2 percent effective January 1, 2007, from $635 to $649 (premium for this coverage would be $16.22 and the breakeven base amount would be $1390.71) (ref: 10 U.S.C. 1452(a)(4)(A) and the scheduled increase in rates of basic pay of 2.2 percent, effective January 1, 2007 under 37 U.S.C 1009).

10. 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 by an additional .5 percent effective April 1, 2007, from $649 to $652 (premium for this coverage would be $16.30 and the breakeven base amount would be $1397.14) (ref: 10 U.S.C. 1452(a)(4)(A) and the scheduled increase in rates of basic pay of .5 percent, effective April 1, 2007 under Public Law 109-364, section 601(c)).
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 26, 2006 (Volume 71, Number 207, pages 62636-62642). The following changes affect the annuity computations of the SBP/RC-SBP social security offset for those individuals with an eligibility year of 2007 and later:

a. Average of total wages for 2005 is $36,952.94.

b. The maximum taxable wages pertaining to Old Age Survivor and Disability Insurance (OASDI) benefits is increased from $94,200 in 2006 to $97,500 in 2007. There is no maximum taxable wage base for the Hospital Insurance (HI) portion (1.45 percent) of social security taxes. Earnings in 2007 above $97,500 will not be used to determine survivor benefits.

c. The Primary Insurance Amount (PIA) for benefit eligibility in 2007 is computed on the basis of the Average Indexed Monthly Earnings (AIME) as follows:

90 percent of the first $680 of the AIME, plus
32 percent of the AIME over $680 and through $4,100 plus
15 percent of the AIME over $4,100.