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under the Federal Employees Retirement System (FERS).

(b) This subpart provides the methodology for—

(1) Computing COLA's on each type of FERS basic benefit subject to COLA's; and

(2) Computing COLA's on annuities partially computed under FERS and partially computed under the Civil Service Retirement System (CSRS).

(c) COLA's on children's annuities are not covered by this subpart because COLA's on children's annuities are computed under CSRS rules.

§ 841.702 Definitions.

In this subpart—

Annuity supplement means the benefit under subpart E of part 842 of this chapter. An *annuity supplement* is only payable to retirees.

Basic annuity means the benefits computed under subpart D of part 842 of this chapter and payable to retirees.

Basic employee death benefit means the basic employee death benefit as defined in § 843.102 of this chapter.

Beneficiary of insurable interest annuity means a person receiving a recurring benefit under FERS that is payable (after the employee's, Members, or retiree's death) to a person designated to receive such an annuity under § 842.605 of this chapter.

COLA means a cost-of-living adjustment.

Combined CSRS/FERS annuity means the recurring benefit with a CSRS component and a FERS component. A ''combined CSRS/FERS annuity'' is only payable to a retiree who as an employee elected to transfer to FERS under part 846 of this chapter, who at the time of transfer had at least 5 years of service creditable under CSRS (excluding service that was subject to both social security and partial CSRS deductions), and who was covered by FERS for at least 1 month.

CSRS means the Civil Service Retirement System as described in subchapter III of chapter 83 of title 5, United States Code.

CSRS component means the portion of a combined CSRS/FERS annuity that is computed under CSRS rules.

Current spouse annuity means a current spouse annuity as defined in § 842.602 of this chapter.

Disability retiree means a retiree who retired under part 844 of this chapter.

Effective date means the date annuities increased by a COLA begin to accrue at the higher rate.

FERS means the Federal Employees Retirement System as defined in chapter 84 of title 5, United States Code.

FERS component means the portion of a combined CSRS/FERS annuity computed under FERS rules.

Former spouse annuity means a former spouse annuity as defined in § 842.602 of this chapter.

Initial monthly rate means the monthly annuity rate that a retiree (other than a disability retiree) is entitled to receive at the time of retirement (as defined in § 842.602 of this chapter).

Percentage change means the percent change in the price index as defined in section 8462(a)(2) of title 5, United States Code.

Retiree means a retiree as defined in § 842.602 of this chapter.

Survivor means a person receiving a current spouse annuity or a former spouse annuity, or the beneficiary of an insurable interest annuity. As used in this subpart, ''survivor'' does not include a child annuitant.

Survivor supplement means the recurring benefit payable to a survivor under § 843.308 of this chapter.

§ 841.703 Increases on basic annuities and survivor annuities.

(a) Except as provided in §§ 841.704, 841.706, and 841.707, and paragraph (e) of this section, COLA's on basic annuities and survivor annuities are the greater of—

(1) One dollar per month; or

(2)(i) If the percentage change is less than 2 percent, the percentage change;

(ii) If the percentage change is at least 2 percent and not greater than 3 percent, 2 percent; and

(iii) If the percentage change exceeds 3 percent, 1 percentage point less than the percentage change.

(b) After survivor annuities commence, they are subject to COLA's computed under paragraph (a) of this section, even if they are based on a

basic employee annuity that includes a CSRS component.

(c) COLA's apply to basic annuities (not to annuity supplements), survivor annuities, and survivor supplements.

(d) COLA's do not apply for annuitants who are under age 62 as of the effective date, except—

(1) Survivors;

(2) Disability retirees (other than disability retirees whose benefits is based on 60% of high-3 average salary);

(3) Retirees who retired under § 842.208 of this chapter (the special provisions for law enforcement officers and firefighters);

(4) Retirees who retired under § 842.207 of this chapter (the special provision for air traffic controllers);

(5) Retirees who retired under § 842.210 of this chapter (the special provision for military reserve technicians who ceased satisfying the requirements of their position) due to a disability.

(e)(1) Except as provided in paragraph (e)(2) of this section, COLA's are not payable to disability retirees during the first year.

(2) COLA's are payable to disability retirees during the first year if the annuity rate payable is the retiree's earned benefit or the annuity is redetermined because the retiree has reached age 62.

(3) After the first year, both the disability benefit and the social security offset (it any) are increased by COLA's. Disability retirees' earned benefits also increase with COLA's, even when earned benefits are not paid. After application of the COLA, the greater of the increased 40 percent benefit offset by social security or the increased earned benefit is paid until the annuity is redetermined at age 62. After age 62, the redetermined annuity is paid.

(f) COLA's are payable to retirees and survivors whose annuities commence before the effective date.

§ 841.704 Proration of COLA's.

(a) The full amounts of COLA's are payable on annuities having a commencing date more than 11 months before the effective date.

(b)(1) Prorated portions of COLA's are payable of annuities having a commencing date within 11 months before the effective date.

(2) Proration is based on the number of months (with any portion of a month counting as a month) between the annuity commencing date and the effective date.

(3) For survivors of deceased retirees, proration is determined by the date the annuity was first payable to the deceased retiree.

(4) Proration applied to the assume social security disability insurance benefit is based on the commencing date of the disability annuity, not the beginning of the social security disability benefit.

§ 841.705 Increases on basic employee death benefits.

(a) COLA's on the basic employee death benefit increase the $15,000 component by the percentage change.

(b) Recipients of the basic employee death benefit are entitled to COLA's if the employee or Member died on or after the effective date.

§ 841.706 Increases on combined CSRS/FERS annuities.

(a) COLA's on combined CSRS/FERS annuities are computed by increasing the CSRS component by the percentage change and the FERS component by the amount of COLA's under § 841.703(a).

(b) The initial monthly rate is computed by—

(1) Applying CSRS rules to CSRS service to obtain the annual rate of the self-only annuity (as defined in § 831.603 of this chapter) based on the CSRS service; then

(2) Applying FERS rules to FERS service to obtain the annual rate of annuity determined under §§ 842.403, 842.405, 842.406, or 842.407 of this chapter based on the FERS service; then

(3) Making any applicable FERS reductions for age and/or survivor benefits to the amounts computed under paragraphs (b)(1) and (b)(2) of this section; then

(4) Dividing the sum of the reduced amounts computed under paragraph (b)(3) of this section by 12; then

(5) Dropping any cents.

(c) The initial monthly CSRS component is computed by—

(1) Applying CSRS rules to CSRS service to obtain the annual rate of the