

# Overseas Cost-of-Living Allowance Adjustment Process

- The Overseas Cost-of-Living Allowance (OCOLA) is a non-taxable allowance designed to ensure Service members assigned to a permanent duty station outside the contiguous U.S. (OCONUS) (i.e., foreign countries, U.S. territories, Alaska, and Hawaii) maintain an equivalent level of purchasing power as Service members stationed CONUS—**not less purchasing power, but not more either**.
- The Department updates OCOLA rates based on assessment of three primary data points: the triennial Living Pattern Survey (LPS), the annual Retail Price Schedule (RPS), and, for foreign locations, changes in currency exchange rates. The triennial LPS measures where Service members shop and the proportion of shopping that occurs on a military installation, such as at commissaries and exchanges, at local community outlets, and from online purchases. The RPS measures the cost of a 150-item market basket of non-housing goods and services (e.g., groceries and clothing), not utilities or housing costs which are accounted for separately through housing allowances from the outlets where Service members indicate they shop. Currency fluctuations measure the relative purchasing power in the foreign currency as compared to the U.S. Dollar.
- Annually, the Department compares OCONUS LPS and RPS data to the same data collected in CONUS (average CONUS baseline) to establish OCOLA for the OCONUS location. The OCOLA rate pays a differential to Service members in OCONUS locations for the increased cost of buying the same CONUS baseline non-housing goods and services at the OCONUS location. Based upon changes in the underlying data, OCOLA rates may increase or decrease over time; thus, the potential for OCOLA to fluctuate up and down should be considered in household budgeting.
  - OCOLA calculations are based on a comparison to CONUS, therefore inflation in CONUS locations has a major impact on OCOLA. If CONUS prices rise at a greater rate than OCONUS prices, OCOLA may decrease. This has been a primary cause of OCOLA decreases for several OCONUS installations over the past year. Conversely, OCOLA may increase if OCONUS prices rise at a greater rate than CONUS prices.
  - Additionally, as the U.S. Dollar strengthens against a foreign currency, OCOLA may decrease to maintain purchasing power in the local currency. OCOLA may increase if the foreign currency strengthens against the U.S. Dollar.
- On December 8, 2022, the Department implemented a 90-day pause to all OCOLA reductions to provide relief to Service members experiencing OCOLA decreases due to high CONUS inflation and a strengthening U.S. Dollar. Service members stationed OCONUS did not sustain any computed OCOLA decreases during this time; however, OCOLA increases continued to be implemented.
- On December 23, 2022, the National Defense Authorization Act for Fiscal Year 2023 enacted restrictions limiting the Department to instituting OCOLA decreases — those based on cost-of-living data *and* those based on currency fluctuations — to no more than once every six months or in connection with a Service member's permanent change of station.
  - This year, the Department will implement OCOLA decreases effective May 15 and November 15. Rate reductions based on the annual cost-of-living assessment (greater than 2 index points) will be implemented in 50% increments while OCOLA decreases based on currency fluctuations will be implemented in full each cycle. OCOLA increases will continue to be implemented when warranted during the year.
  - Whenever possible, the Department will notify Combatant Commanders (CCMDs) and overseas points of contact (POCs) at least 30 days prior to implementation of the first 50% reduction of an approved OCOLA decrease (for decreases based on data) to ensure Service members have time to financially prepare for the changes. In the case of the May 15, 2023 reductions, CCMDs and overseas points of contact were notified of the new rates prior to March 2023.
  - The Department will keep CCMDs/POCs abreast of the potential effects of currency fluctuations on OCOLA rates throughout the year as the implementation dates approach.
  - OCOLA decreases that have been on hold since December 8, 2022 will now be effective May 15, 2023. Service members in affected OCONUS locations will see the decreases in their June 1, 2023 paychecks.
  - Additional information on the OCOLA program can be found at:  
<https://www.travel.dod.mil/Allowances/Overseas-Cost-of-Living-Allowance/>