

Pay Raise Considerations

By Tammy Flanagan

February 2, 2017

On Dec. 27, 2016, President Obama signed into law the [2017 pay increase](#) for federal employees who are paid under the General Schedule, Foreign Service Schedule, and other pay systems for executive, legislative and judicial branch employees. You can find the [new pay charts](#) at the Office of Personnel Management's website--if you haven't already downloaded them.

Pay raises vary according to locality, and also raise long-term considerations about Social Security and other retirement planning issues.

For example, if you're a General Schedule employee in the Washington, D.C. locality pay area, you received 2.88 percent more money in your paycheck for the pay period that began on Jan. 8. So a GS-9, Step 6 employee who was earning \$62,338 in 2016 gets basic pay of \$64,136 in 2017. That's an increase of nearly \$2,000 per year, or \$166 a month before taxes. A GS-14, Step 10 employee who earned \$141,555 in 2016 will get \$145,629 in 2017. This is an increase of a little more than \$4,000 in gross pay, or \$339 per month.

As I noted in [last week's column](#), the maximum taxable earnings for for the Social Security FICA tax are increasing in 2017 from \$118,500 to \$127,200. This is the largest increase in Social Security history. Employees earning more than \$127,200 will not pay the tax on wages above this amount. For example, the GS-14, Step 10 employee in the above example will not have to pay the 6.2 percent FICA tax on the difference between their 2017 and 2016 salary, which is \$4,074. This saves them \$252.59 (6.2% x \$4,074) in FICA taxes, but nonetheless, they will have to pay an additional 6.2% on the difference between \$127,200 and \$118,500 (\$8,700 x 6.2% = \$539.40) over the FICA tax paid in 2016. The extra \$678.03 that they will have in their paycheck at the end of 2017 is money that they can hopefully put towards their retirement savings!

If you're not one of those people whose salary exceeds the \$127,200 maximum taxable wage limit, you may not feel bad about the boost in the FICA taxable earnings limit. But keep in mind that the amount of income subject to the FICA tax is also the amount of income used to compute the future Social Security benefit. For example, even though the employee in our example will earn a salary of \$145,629 in 2017, Social Security will only count \$127,200 of it in the computation of the future retirement benefit.

This sets a limit on the benefit amount. The [maximum Social Security benefit](#) for a worker retiring in 2017 at age 66 and 2 months (their full retirement age) is \$2,687 per month.

As you ponder what to do with your increased earnings this year, it might be wise to consider increasing the amount of your contributions to your retirement savings. This could be especially important to higher wage earners and those who are not saving enough to get the full employer match on the Thrift Savings Plan.

Photo: [401kcalculator.org](#)

Correction: The original version of this column used incorrect figures for the pay rates of employees in the Washington, D.C. locality pay area. The column has been updated to correct the errors.

By Tammy Flanagan

February 2, 2017

<http://www.govexec.com/pay-benefits/retirement-planning/2017/02/pay-raise-considerations/135098/>