

Retirement 101: Start Planning Now

By Tammy Flanagan

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This week, I had the pleasure of teaching a class for federal employees who have worked in government for less than five years to help them prepare for their retirement. This is when employees should learn about how their retirement benefits are designed to work.

My Uncle Steve, who I have mentioned in [past columns](#), was a federal employee covered by the Civil Service Retirement System. When he retired in 1978, the only planning he did was to complete his retirement application 30 days before his 55th birthday. He was happily retired for 34-plus years with little preparation, other than spending the majority of his career in the federal government. Those were the good old days. Today, the majority of federal employees are covered by the Federal Employees Retirement System, which requires them to coordinate three separate benefits: the FERS basic annuity, Social Security and the Thrift Savings Plan. The TSP is not a benefit that can wait until 30 days prior to retirement to attend to.

A number of the employees in my class weren't aware that they even had a basic retirement benefit in addition to Social Security and Thrift Savings Plan. It's also important for younger employees to understand that Social Security benefits are tilted to provide more replacement of income for lower wage earners and less for higher wage earners. This will impact the amount employees should save in their Thrift Savings Plan to offset this tilted benefit. It is almost as if the TSP and Social Security are on a seesaw.

For me, the classes that prepare employees for the future are among the most rewarding to teach. Hopefully, these employees are now able to set realistic retirement goals and make decisions about how much they will need to save to reach their goals.

Basic Pay

One of the big questions that came up in this class was, "What is basic pay?" The definition of basic pay is important for federal employees to understand since it affects so many of their benefits. Your high-three average salary for your CSRS or FERS retirement is based on your basic pay. The value of Federal Employee's Group Life Insurance basic coverage and Option B (additional coverage) also are computed in your basic pay rate. Basic pay for the Thrift Savings Plan follows the same definition for the computation of automatic and matching contributions for FERS employees, as well as employee contributions when elected as a percentage of basic pay.

Here is the Office of Personnel Management's definition of [basic pay](#):

"The rate of pay fixed by law or administrative action for the position to which an employee is appointed before deductions and including any special rate supplement under 5 CFR part 530, subpart C, or similar payment under other legal authority and any locality-based comparability payment under 5 CFR part 531, subpart F, or similar payment under other legal authority, but excluding additional pay of any other kind. For example, a rate of basic pay does not include additional pay such as cost-of-living allowances or post differentials under 5 U.S.C. 5941, night shift differentials under 5 U.S.C. 5343(f) or environmental differentials under 5 U.S.C. 5343(c)(4). (See the definition of rate

of basic pay in 5 CFR 575.302.)”

According to the [Defense Finance and Accounting Service](#), one of the government’s major payroll centers, basic pay is determined by your [pay plan](#) and [locality pay](#). It is the rate before any additional pay or deductions are added. The federal pay scales include the Federal Wage System, General Schedule, Executive Schedule, Scientific and Professional, Senior Executive Service and Senior Level.

What’s Included

Locality pay is determined by your official duty station, not where you live. If you get a job in a new area, your locality pay will change to your new duty station’s rate. But if you go on temporary assignment, you will receive your current pay. Locality pay is included in basic pay.

Law enforcement officers in General Schedule grades 3 through 10 are entitled to worldwide special pay rates. Visit OPM’s [Law Enforcement General Schedule Locality Pay Tables](#) for details. SES and senior-level law enforcement officers in eight geographic areas receive special pay adjustments of 4 percent, 8 percent and 16 percent. But when added to basic pay in the General Schedule, the law enforcement special pay adjustment may not exceed the Executive Schedule’s Level IV rate. Law Enforcement Availability Pay, or [LEAP pay](#), is calculated for [criminal investigators](#), who work substantial amounts of unscheduled duty due to the nature of their job. LEAP pay is treated as basic pay.

For Federal Wage System employees, [night shift differential](#) is computed as a percentage of basic pay. This is the pay adjustment for work performed when the majority of a prevailing rate employee's regularly scheduled non-overtime hours fall between 3 p.m. and 8 a.m.

Your Earnings Statement

Another way to determine what is included in basic pay is to multiply your gross salary on your leave and earnings statement by your CSRS or FERS retirement contribution percentage rate. If that amount equals the withholding for CSRS or FERS, then this would indicate that your full salary is all considered basic pay.

Here are two examples:

Debbie, a CSRS employee has a biweekly salary of \$3,000. Her withholding for CSRS would be 7 percent of \$3,000, which equals \$210. If she received a cash award of \$200, the withholding for retirement would remain \$210 since the cash award is not basic pay.

Craig, a FERS employee has a biweekly salary of \$3,000. His withholding for FERS would be 0.8 percent of \$3,000, which equals \$24. If he has earned four hours of overtime during this pay period, his FERS withholding would still be \$24 since the overtime pay is not considered basic pay.

So, there you have it. For CSRS and FERS retirement calculations, your high-three average pay is the highest average basic pay you earned during any three consecutive years of service -- generally your last three years on the job. For more information on basic pay and the CSRS and FERS retirement computation, see the [retirement services](#) section of OPM’s website.

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<http://www.govexec.com/pay-benefits/retirement-planning/2013/09/retirement-101-start-planning-now/70578/>