# The High-3 Average Salary

FEDIMPACT
Retirement Training by PROFEDS

---

**Welcome**

- » Our audience today
- » Q&A – the ProFeds Support Team standing by
- » Handouts – available for download
- » Recorded – how to get the replay
- » Stay until the end!

---

**Your ProFeds Presenter**

**Chris Kowalik**

- » ProFeds Founder
- » Developer of the FedImpact Retirement Workshop
- » Host of the FedImpact Podcast

**Support Team**

- » Standing by for your questions

FEDIMPACT
Retirement Training by PROFEDS

---

# The High-3 Average Salary

**The step-by-step guide to the real way your high-3 is calculated**

---

## The High-3 Average Salary

### Agenda

» Understand the important role that your high-3 plays in your federal pension

» Determine specifically what kinds of pay count toward the high-3 (and which ones don't!)

» Learn how changes to your pay affect this calculation

» Walk through a step-by-step calculation

» What this session won't be...

---

## The High-3 Average Salary

### The Role of the High-3

» Important components used in the pension formula
- **High-3 average salary** ⬅
- Unused sick leave
- Number of years & months of service to be included

| Regular FERS 1.0% formula<br>(retiring under age 62 **OR** at least age 62, but with less than 20 years of service) | Regular FERS 1.1% formula<br>(retiring at least age 62 **AND** with at least 20 years of service) |
|---|---|
| **High-3**  x  1.0%  x  # of years  =  **Pension** | **High-3**  x  1.1%  x  # of years  =  **Pension** |

---

## The High-3 Average Salary

### The Basics of the High-3

» Average of the highest 3 years (36 months) of consecutive earnings (they all have to be together)

» Does not have to be a full calendar or fiscal year (ex: 7/31/2021 – 7/31/2024)

» The highest 3 years of earnings typically happens at the end of an employee's career (natural career progression, pay raises, step increases, etc.)

» Not all types of pay count toward the High-3

---

## The High-3 Average Salary

# Step 1:
## Determine the types of pay that count for high-3 purposes

---

## Slide 1

| Pay included in the High-3... | but NOT... |
| --- | --- |
| Regular pay | Retention pay |
| Locality pay | Overseas COLA |
| Law Enforcement Availability Pay (LEAP) | Military pay |
| Administratively Uncontrollable Overtime (AUO) | Regular overtime |
| Premium pay (select types) | Premium pay (select types) |
| Market pay | Bonuses |
| Environmental pay | Cash awards |
| Night differential pay (for Wage Grade only) | Relocation allowance |

## Slide 2

### Special Pay on the Pay Stub

**Types of pay shown on pay stub:**
- » Regular pay = $3,586.40
- » Uniform Allowance = $8.27
- » Incentive Award = $1,000.00

| 21. | Current | Year to Date |
| --- | --- | --- |
| GROSS PAY | 4594.67 | 62432.83 |
| TAXABLE WAGES | 3591.27 | 45393.69 |
| NONTAXABLE WAGES | 465.44 | 7899.10 |
| TAX DEFERRED WAGES | 537.96 | 9140.04 |
| DEDUCTIONS | 2061.14 | 30293.28 |
| AEIC | | |
| NET PAY | 2533.53 | 32139.55 |

CURRENT EARNINGS

| TYPE | HOURS/DAYS | AMOUNT | TYPE | HOURS/DAYS | AMOUNT | TYPE | HOURS/DAYS | AMOUNT |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| REGULAR PAY | 80.00 | 3586.40 | UNIFORM ALW | | 8.27 | | | |

RETROACTIVE EARNINGS

| TYPE | HOURS/DAYS | AMOUNT | TYPE | HOURS/DAYS | AMOUNT | TYPE | HOURS/DAYS | AMOUNT |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| INCENTIVE AWD | | 1000.00 | | | | | | |

*Does the uniform allowance and incentive award count for the high-3?*

## Slide 3

### Special Pay on the Pay Stub

**Q:** How can we tell if the two types of special pay count for high-3 purposes?

**A:** Do the backwards math!

(Hint: the amount you pay into FERS each pay period is ONLY based on the pay that counts for the high-3)

## Slide 4

### Special Pay on the Pay Stub

» **What percentage does an employee contribute to FERS each pay period?**
  - Regular FERS contributions
    - Employees hired before 2013: 0.8% ⬅
    - Employees hired in 2013: 3.1%
    - Employees hired in 2014 or later: 4.4%
  - Special Provision FERS contributions:
    - Law Enforcement, Firefighters & Air Traffic Controllers: add extra 0.5%

## Slide 1

**Special Pay on the Pay Stub**

» **What percentage does an employee contribute to CSRS each pay period?**

– Regular CSRS contributions

  • Pure CSRS: 7.0%

  • CSRS Offset employees: 0.8%

– Special Provision CSRS contributions:

  • Law Enforcement, Firefighters & Air Traffic Controllers: add extra 0.5%

## Slide 2

**Special Pay on the Pay Stub**

This employee contributes 0.8% to FERS each pay period (showing $28.69/pp on the pay stub)

| TYPE | CODE | CURRENT | YEAR TO DATE | TYPE | CODE | CURRENT | YEAR TO DATE |
|------|------|---------|-------------|------|------|---------|-------------|
| ALLOTMENT,SV | (1) | 42.00 | 714.00 | FEGLI | E5 | 14.40 | 244.65 |
| FEGLI OPTNL | C | 15.70 | 236.10 | FEHB | 105 | 300.12 | 5088.66 |
| FSA-HC | | 105.76 | 1797.92 | MEDICARE | | 59.87 | 790.74 |
| OASDI | | 312.21 | 4280.29 | RETIRE, FERS | K | 28.69 | 487.45 |
| TAX, FEDERAL | | 593.14 | 6641.50 | TSP SAVINGS | | 537.96 | 9140.04 |
| DENTAL | | 37.97 | 645.49 | VISION | | 13.32 | 226.44 |

*That $28.69 is 0.8% of what number?*
*(for you number nerds, that equation is $28.69 = 0.8\%x$)*

## Slide 3

**Special Pay on the Pay Stub**

» **Types of pay shown on pay stub:**

– Regular pay = $3,586.40

– Uniform Allowance = $8.27

– Incentive Award = $1,000.00

» **FERS Contributions on pay stub:**

– Retire, FERS = $28.69

**THE BACKWARDS MATH**

$$\frac{\$28.69}{0.8\%} = \sim \$3,586/pp$$

$3,586 x 26 = **$93,236/yr**

*The conclusion we can make is that retirement deductions were only taken from regular pay, so neither of the other special pays count in determining the high-3.*

## Slide 4

## Step 2:
**Determine the time frame of highest earnings**

## Slide 1

**Determine the Timeframe of Highest Earnings**

Most often, your highest 3 years of earnings
will be earned at the end of your career

High-3

Length of your entire career

## Slide 2
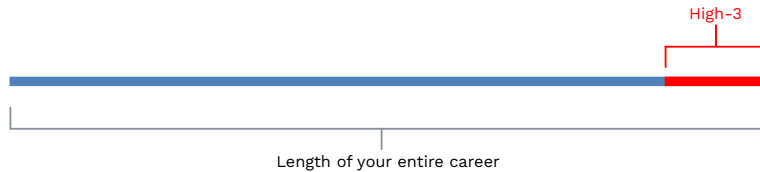
**Determine the Timeframe of Highest Earnings**

Sometimes, your highest 3 years of earnings
may have happened many years ago

High-3

Length of your entire career

## Slide 3
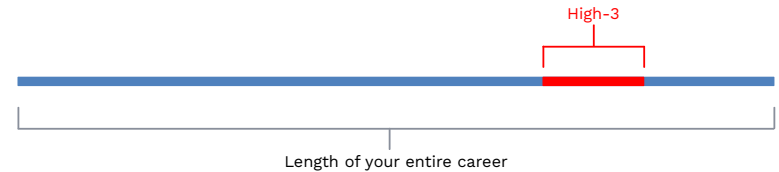
**Isolate the Highest 3 Years of Earnings**

» **For our example**
- Your highest years of eligible earnings were at the end of your career
- Retire on 12/31/2021
- Maybe retire on 1/31/2022 because you heard that changes your high-3 big time

## Slide 4

**Step 3:**
**Calculate the
High-3 Average**

## The High-3 Average Salary

### Calculate the High-3 Average

If you retire 12/31/2021

High-3

| 2019 (12 months) | 2020 (12 months) | 2021 (12 months) |
|:---:|:---:|:---:|
| $89,974 | $92,313 | $93,236 |
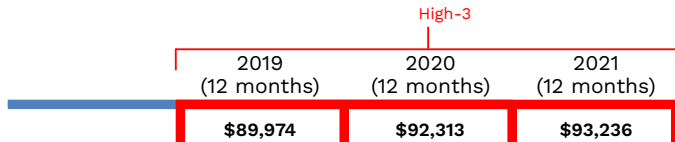
Add all 36 months of pay together and divide by 3 to get a
**High-3 of $91,841**

---

## The High-3 Average Salary

### Calculate the High-3 Average

If you retire 1/31/2022

High-3

| 2019 (11 months) | 2020 (12 months) | 2021 (12 months) | 2022 (1 month) |
|:---:|:---:|:---:|:---:|
| $89,974 | $92,313 | $93,236 | $93,033 ($8,003) |
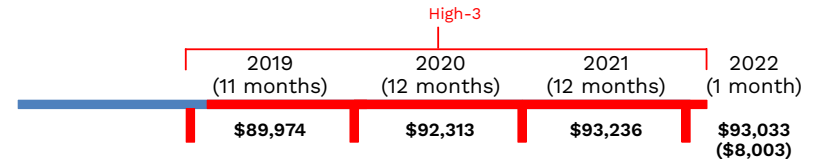
Add all 36 months of pay together and divide by 3 to get a
**High-3 of $92,009**

---

## The High-3 Average Salary

# Step 4:

## Plug the high-3 into the pension formula for your retirement system

---

## The High-3 Average Salary

### Review of the Step-by-Step Calculation

» STEP 1: Determine the types of pay that count for high-3 purposes

» STEP 2: Determine the timeframe of highest earnings

» STEP 3: Calculate the high-3 average

» STEP 4: Plug the high-3 into the pension formula for your retirement system

**Frequently Asked Questions**

**Q:** *If I get a temporary promotion, does that count for my high-3?*

**A:** As long as you are in your highest earning years when this occurs, then YES – this extra pay does count toward the high-3 calculation!

**Q:** *If I take a job overseas for my last 3 years, does that hurt my high-3?*

**A:** If you are in your highest earning years, this will likely suppress your high-3 from continuing to go up because you will lose locality pay. Remember, "Overseas COLA" doesn't count for the high-3!

**Q:** *If I move from a high locality pay area to an area that is much lower, is my high-3 going down?*

**A:** It's not so much that your high-3 is "going down," it's that it's not continuing to go up. Ultimately, you'll have a lower high-3 than you would have had if you had stayed in the higher locality area.

**Q:** *If I move to a high locality pay area for just 1 year, does that pay still count for the high-3?*

**A:** Yes! Remember – your high-3 consists of 36 months of consecutive earnings. The higher pay you'd be receiving in your last year will positively affect your high-3 calculation!

**Q:** *There's been talk of the "high-3" changing to be the "high-5" for years. How likely is this to change?*

**A:** This idea of the high-5 has been floating out there for years. Congress receives heavy pushback as it changes what was promised to current workers about to retire. But it's always possible...

---

**The High-3 Average Salary**

## Get the Rest of the Story

CSRS & FERS Pensions • FLTCIP • TSP
Survivor Benefit Plan • Social Security
FERS Supplement • FEGLI • FEHB

**TAKE THE GUESSWORK OUT OF RETIRING FROM FEDERAL SERVICE**

*"The workshop you delivered yesterday was phenomenal. I enjoyed the presentation as well as the class participation and interaction."*
D.S., Office of Personnel Management

*"The most information I have ever received and heard in my ENTIRE military and federal years."*
L.B., Department of Defense

**FEDIMPACT** Retirement Training by PROFEDS

GSA Schedule Contract #70FB4418D0001

» Attend a workshop:
  – Virtual and live options
  – No cost to attend
  – Covers all of the federal benefit topics and decisions to be made
» See all the details at:
  **FedImpact.com/Attend**

---

**The High-3 Average Salary**

## Handouts and Replay

**Today's Resources**

» Handouts
  – Download
  – Emailed
» Replay
  – Link will be emailed to all registered participants

---

## The High-3 Average Salary

### Next Webinar

Join us for a short webinar:

**The Special Retirement Supplement**

**Oct 14, 2021 @ 1pm CT**

Presented by **PROFEDS**

» Next webinar topic!

- **The Special Retirement Supplement**
  A unique benefit for select FERS employees

» Sign-up at:
**FedImpact.com/Webinar**

---

# Thank you for joining us

Stay tuned for benefits and news updates

**FEDIMPACT**
Retirement Training by PROFEDS

**FIND A WORKSHOP**
**FedImpact.com/Attend**

**NEXT WEBINAR**
**FedImpact.com/Webinar**

**FOLLOW US ON SOCIAL**
**@FedImpact**