



The High-3 Average Salary

Presented by ProFeds

The High-3 Average Salary

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!

The High-3 Average Salary

Your ProFeds Presenter



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- Developer of the FedImpact Retirement Workshop
- Host of the FedImpact Podcast

Support Team

- Standing by for your questions

FedImpact
Retirement Training
presented by ProFeds

The High-3 Average Salary

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
(retiring under age 62 **OR** at least age 62, but with less than 20 years of service)

High-3 x 1.0% x years of service = **Pension**

Regular FERS 1.1% formula
(retiring at least age 62 **AND** with at least 20 years of service)

High-3 x 1.1% x years of service = **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

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

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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

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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	

- Uniform Allowance = \$8.27
- Incentive Award = \$1,000.00

CURRENT EARNINGS								
TYPE	HOURS/DAYS	AMOUNT	TYPE	HOURS/DAYS	AMOUNT	TYPE	HOURS/DAYS	AMOUNT
REGULAR PAY	80.00	3586.40	UNIFORM ALLOWANCE		8.27			

RETROACTIVE EARNINGS								
TYPE	HOURS/DAYS	AMOUNT	TYPE	HOURS/DAYS	AMOUNT	TYPE	HOURS/DAYS	AMOUNT
INCENTIVE AWARD		1000.00						

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

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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)

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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%

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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 FERS contributions:
 - Law Enforcement, Firefighters & Air Traffic Controllers: **add extra 0.5%**

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Special Pay on the Pay Stub

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

			DEDUCTIONS					
TYPE	CODE	CURRENT	YEAR TO DATE	TYPE	CODE	CURRENT	YEAR TO DATE	
ALLOTMENT, SV	(1)	42.00	714.00	FEGLI	65	14.40	244.65	
FEGLI OPTNL	C	15.70	236.10	FERS	105	300.12	3088.66	
FRA-BC		105.76	1797.92	MEDICARE		59.87	790.74	
OASDI		312.21	4280.29	RETIRE, FERS	R	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 $28.69 = 0.8\%x$)

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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 High-3 Average Salary

Special Pay on the Pay Stub

THE BACKWARDS MATH

Types of pay shown on pay stub:

- Regular pay = \$3,586.40
- Uniform Allowance = \$8.27
- Incentive Award = \$1,000.00

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

$$\$3,586 \times 26 = \$93,236/\text{yr}$$

FERS Contributions on pay stub:

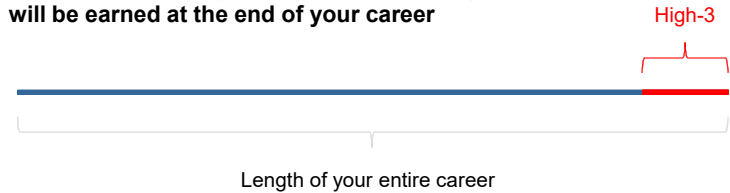
- Retire, FERS = \$28.69

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.

STEP 2: Determine the Timeframe of Highest Earnings

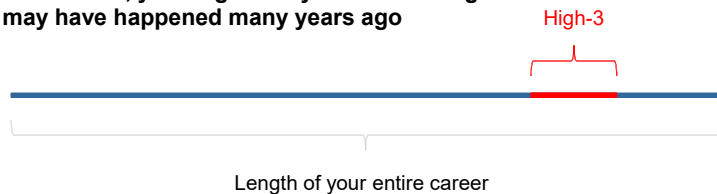
Determine the Timeframe of Highest Earnings

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



Determine the Timeframe of Highest Earnings

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



Isolate the Highest 3 Years of Earnings

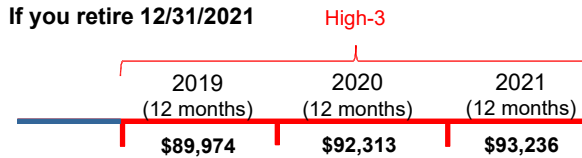
- **For our example**

- 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

STEP 3: Calculate the High-3 Average

Calculate the High-3 Average

If you retire 12/31/2021



Add all 36 months of pay together and divide by 3 to get a
High-3 of \$91,841

Calculate the High-3 Average

If you retire 1/31/2022



Add all 36 months of pay together and divide by 3 to get a
High-3 of \$92,009

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

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?*

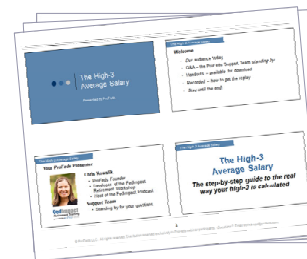
A: *Yes! Remember – your high-3 consists of 36 months of consecutive earnings. The higher pay you'd be receiving in your last year will positively affect your high-3 calculation!*

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...*

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Handouts & Replay



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



LINK TO REPLAY

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