

COLAs & Federal Pay Raises for 2027

FEDIMPACT
Retirement Training by PROFEDS

Welcome

- About today's topic
- 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



FEDIMPACT
Retirement Training by PROFEDS

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

Support Team

- Standing by for your questions

COLAs and Federal Pay Raises for 2027

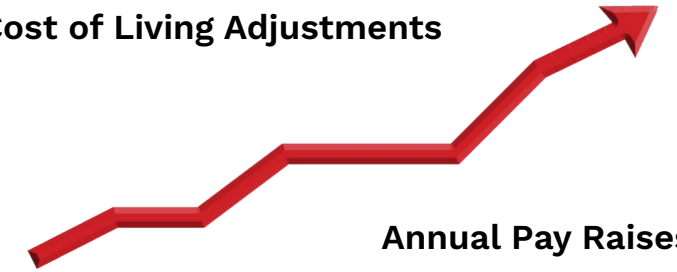
The real effect on your money moving forward

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Agenda

- **PAY RAISES:** When, why, and how they are applied—and what effect this has on your initial federal pension
- **COLAs:** When, why, and how they are applied—and what effect this has on your federal pension over time
- **PROJECTIONS:** Current projections for 2027's anticipated pay raises and how newly announced COLAs will be implemented in retirement
- **DIFFERENCES:** The main differences between how each is applied to CSRS and FERS

Cost of Living Adjustments



Annual Pay Raises

Digging Into the Details of COLAs & Pay Raises

- **WHO** gets it?
- **WHAT** is it based on?
- **HOW** much can you expect?
- **WHEN** does it get applied?
- **WHERE** must you live to get it?
- **WHY** does it affect you?



Annual Pay Raises

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Pay Raises: WHO gets it?



- Pay raises are annual pay increases applied to current federal employees' paychecks while they are still working
- Different from pay grade or step increases
- Retirees are not affected by annual pay raises

Pay Raises: WHAT is it based on?



- Pay raise levels are not tied to a specific economic index
- They are often political in nature and face heavy scrutiny by many groups each year

Pay Raises: HOW much can you expect?

Year	Employee Pay Raises
2018	1.9
2019	1.9
2020	3.1
2021	1.0
2022	2.7
2023	4.6
2024	5.2
2025	2.0
2026	1.0
2027	0.0
10-Year AVG	**2.34%**

- Pay raises are not guaranteed
- For 2027, expected to be: **0.0%**
  - 0.0% across-the-board
  - 0.0% locality pay change
- Certain law enforcement officers will receive a 3.8% increase FedImpact.com/LEO-PAY-2027

Pay Raises: WHEN does it get applied?

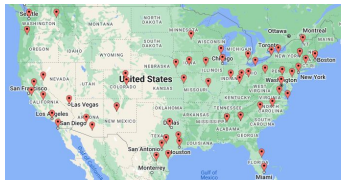


- Pay raises are typically applied in January of a given year (for 2027, it is January 10th)
- If approved late, it is typically retroactively paid to the date it would have otherwise been applied

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Pay Raises: WHERE must you live to get it?

Current Locality Pay Areas within the US



Also included, but not pictured: Alaska & Hawaii

- Across-the-board pay raises are not specific to your location
- Locality pay raises can also take place which may cause your pay to change based on your location
- NOTE: We do not expect a change to locality pay for 2027

Pay Raises: WHY does it affect you?



- While working: Helps you to (somewhat) keep up with inflation and the rising cost to support your standard of living
- Preparing for retirement: The higher your basic pay, the higher your annual leave payout, and the higher your pension is once you retire (due to your high-3)

Q: ***If I retire on January 31, 2027, would any new pay raise (assuming one gets approved) get factored into my retirement pension?***

A: Yes, but… The higher pay that you receive in January 2027 will likely help to make your high-3 SLIGHTLY higher (but it only helps 1 of 36 months in the high-3 calculation)! Calculate the $$$ difference before deciding!

The Effect the Pay Raise Has on Your High-3

- The “high-3 average” is one component of the pension calculation
- It is the average of the highest 3 years (36 months) of consecutive earnings in your career
- Most people earn their highest years of earnings at the end of their career

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Q: ***If I retire on December 31, 2026, would a pay raise (if approved) affect how much I get paid for my annual leave?***

A: Yes! Annual leave is paid out at the pay level that you otherwise would have been at if you had taken the leave (instead of retiring and being paid out in lump sum for it). Remember, the pay raise wouldn't go into effect until 1/10/2027. Let's say you have 3 months of AL saved when you retire. About 2 weeks will be paid at your 2026 pay rate, and the rest will be paid at your new 2027 pay rate.

COLAs & Federal Pay Raises for 2027

Payout of ANNUAL Leave at Retirement

- How is it calculated:
  - Hourly rate as if you had continued working (includes annual pay raises, but not retention allowances):
    - Regular annual leave
    - Restored annual leave
  - Hourly rate based on your final salary:
    - Unexpired compensation time
    - Credit hours

Check out the full webinar replay:
FedImpact.com/webinar-leave

Q: ***Is it better to retire at the end of December or January?***

A: In either scenario, it is typically best to retire at the end of the month.

There are many factors that go into choosing the "perfect" retirement date (and it goes far beyond the pay raise). Choose carefully.

Check out the full webinar replay:
FedImpact.com/webinar-perfect

COLAs & Federal Pay Raises for 2027

Pay Raises: Retiring December vs. January

- End of December:
  - Your high-3 won't be affected by the pay raise
  - You won't lose any of your AL (you'll be paid out lump sum)
  - Most of your AL will likely be paid out at the higher pay level
- End of January:
  - Your high-3 will be slightly increased by the pay raise
  - You will lose any of your AL that exceeds the max carryover limit (for most, 240 hours)
  - Your AL will be paid out at the higher pay level

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Cost of Living Adjustments

COLAs: WHO gets it?

- COLAs are annual inflation adjustments applied to former federal employees' CSRS or FERS pensions <u>while they are retired</u>
- COLAs are also applied to Social Security benefits
- Current employees are not affected by COLAs



COLAs: WHAT is it based on?

- The Bureau of Labor Statistics sets the CPI-W* based on the rising cost of:
  - Housing
  - Food and beverage
  - Medical care
  - Recreation
  - Apparel
  - Transportation
  - Education and Communication
  - Other goods and services

Determining COLA for <u>retirees</u>		
When CPI-W is	**CSRS get:**	**FERS get:**
>3%	CPI-W	CPI-W - 1%
2 - 3%	CPI-W	2%
≤ 2 %	CPI-W	CPI-W

*CPI-W is the "Consumer Price Index for Urban Wage Earners and Clerical Workers"

COLAs: HOW much can you expect?

- COLAs are not guaranteed each year
- For 2027: 3.6% CPI-W just announced
  - CSRS retirees get 3.6%
  - FERS retirees get 2.6%

Year	CSRS Retiree COLAs	FERS Retiree COLAs
2018	2.0	2.0
2019	2.8	2.0
2020	1.6	1.6
2021	1.3	1.3
2022	5.9	4.9
2023	8.7	7.7
2024	3.2	2.2
2025	2.5	2.0
2026	2.8	2.0
2027	3.6	2.6
10-Year AVG	**3.44%**	**2.83%**

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COLAs & Federal Pay Raises for 2027

COLAs: WHEN does it get applied?

- Important dates:
  - **Announced**: mid-October
  - **Applied**: to December pension accrual
  - **Payable**: in January pension payment
- CSRS retirees receive COLAs regardless of their age
- FERS retirees receive COLAs starting at age 62
  (Exception: LEO/FF/ATC receive immediately)
- The first COLA may be prorated based on the # of months of the prior "COLA year" you were retired

Q: ***If I retire December 31, 2026, do I get the COLA in January 2027?***

A: No! New retirees only get a prorated portion of the 2027 COLA based on how many months of the prior year (from Dec 2025 to Nov 2026) they were receiving a pension (in this case, 0 months, so they receive 0% of the COLA).

COLAs & Federal Pay Raises for 2027 **(If you separate in 2026)**

Employee separates in	Pension begins accruing in	Jan 2027 COLA	Jan 2028 COLA	Jan 2029 COLA
January 2026	February 2026	10/12ths (83%)	12/12ths (100%)	12/12ths (100%)
February 2026	March 2026	9/12ths (75%)	12/12ths (100%)	12/12ths (100%)
March 2026	April 2026	8/12ths (67%)	12/12ths (100%)	12/12ths (100%)
April 2026	May 2026	7/12ths (58%)	12/12ths (100%)	12/12ths (100%)
May 2026	June 2026	6/12ths (50%)	12/12ths (100%)	12/12ths (100%)
June 2026	July 2026	5/12ths (42%)	12/12ths (100%)	12/12ths (100%)
July 2026	August 2026	4/12ths (33%)	12/12ths (100%)	12/12ths (100%)
August 2026	September 2026	3/12ths (25%)	12/12ths (100%)	12/12ths (100%)
September 2026	October 2026	2/12ths (17%)	12/12ths (100%)	12/12ths (100%)
October 2026	November 2026	1/12th (8%)	12/12ths (100%)	12/12ths (100%)
November 2026	December 2026	-	12/12ths (100%)	12/12ths (100%)
December 2026	January 2027	-	11/12ths (92%)	12/12ths (100%)

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November 2027	December 2027	-	-	12/12ths (100%)
December 2027	January 2028	-	-	11/12ths (92%)

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COLAs: WHERE must live to get it?

- Where you live in retirement has no effect on your pension amount
- COLAs are applied uniformly regardless of your location



COLAs: WHY does it affect you?

- COLAs are critical to (somewhat) retain the purchasing power of your pension money
- Without it, you must rely more heavily on other assets (i.e. TSP)
- NOTE: Most remaining private sector pensions do not have a COLA



Inflation Compared to COLAs

- In the last 20 years,
  - U.S. inflation: 2.57%
  - CSRS COLAs: 2.57%
  - FERS COLAs: 2.15%

Effect of Inflation on $10,000 from 2007-2027			
Year	Adjusted by INFLATION (2.57%)	Adjusted by CSRS COLA (2.57%)	Adjusted by FERS COLA (2.15%)
2007	$10,000	$10,000	$10,000
2027	$16,611	$16,611	$15,303

Let's recap!

What happens if...

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What happens if you...

Separate end of:	Do you get the 2027 pay raise?	Do you get the 2027 COLA?
October 2026	No	Yes – You'll get 1/12th of the COLA starting in January pension check
November 2026	No	No
December 2026	No	No
January 2027	Yes – it will increase your high-3 average slightly	No
February 2027	Yes – it will increase your high-3 average slightly	No

WRAP-UP & NEXT STEPS

Wrap-Up

- Pay raises and COLAs are paid in very different ways (and neither are guaranteed)
- You should not base your decision to retire solely on pay raises and COLAs (look bigger picture!) FedImpact.com/webinar-perfect
- When you know your numbers, your financial decisions become obvious



Retire with confidence.

- Attend a workshop:
  - In-person training
  - No cost to attend
  - Covers all of the federal benefit topics and decisions to be made
  - One-on-one help available
- See all the details at: FedImpact.com/Attend

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COLAs & Federal Pay Raises for 2027

Handouts and Replay



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

COLAs & Federal Pay Raises for 2027

Next Webinar



- Next webinar topic!
  - **FEHB Open Season for 2027**
    Highlights of changes coming for federal employees
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