



***Retirement and Insurance Service
Benefits Administration Letter***

Number: 03-305

Date: March 26, 2003

Subject: 2003 Retroactive Pay Raise – Effect on CSRS/FERS and FEGLI

On March 21, 2003, President Bush signed an Executive Order that provides Federal employees a 4.1 percent pay raise. Most employees will have already received a 3.1 percent pay raise, which was effective on the first day of the first pay period that began on or after January 1, 2003. The Executive Order adds 1.0 percent earmarked as locality pay, to the 3.1 percent pay raise, and makes it *retroactive* to the first day of the first pay period that began on or after January 1, 2003.

For both CSRS/FERS and Federal Employees' Group Life Insurance Program (FEGLI) purposes, the 1.0 percent retroactive pay increase *is* basic pay. As a consequence, it will require the following actions on the parts of agency payroll offices (APOs):

Retirement

APOs must remit CSRS/FERS withholdings and contributions to OPM on the 1.0 percent retroactive pay increase on the date it is actually paid to employees. For employees, who separated after the first day of the first pay period of calendar year 2003, APOs must submit a supplemental Individual Retirement Record (IRR), documenting the revised salary rate and additional employee withholdings. The IRR must be submitted to OPM with a SF 2807/3103, Register of Separations and Transfer.

FEGLI

The 1.0 percent retroactive pay increase will affect withholdings and contributions for Basic life insurance and withholdings for Additional optional coverage [Option B]. For both Basic life insurance and Option B coverage, withholdings (and contributions for Basic) will increase if the employee moves into a different \$1,000 bracket.

<i>Civil Service Retirement System</i>	<i>Federal Employees' Group Life Insurance Program</i>	<i>Federal Employees Health Benefits Program</i>	<i>Federal Employees Retirement System</i>	<i>Long Term Care Insurance Program</i>
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APOs need to calculate the amount of FEGLI withholdings (and contributions for Basic) that should have been made, based on the new basic pay and compare that with what actually was withheld for all pay periods beginning on or after January 1, 2003. The following illustration will help clarify this:

Daniel Meloy is 43 years-old and works in Washington DC. He has Basic life insurance and three multiples of Option B and in 2002 had basic pay of \$78,265, which he receives biweekly. Therefore, Daniel's Basic life insurance amount (BIA) was \$81,000 and his Option B coverage was three times \$79,000 or \$237,000.

On the effective date of the 3.1 percent pay raise, Daniel's basic pay became \$80,690, increasing his BIA to \$83,000 and his Option B coverage to three times \$81,000 or \$243,000. Effective with the first pay period that began on or after January 1, 2003, Daniel's FEGLI withholdings and his employing agency's contributions were:

Biweekly Withholdings and Contributions <i>[effective with the first pay period that began on or after January 1, 2003]</i>		
	Withholdings	Contributions
Basic [\$83,000]	\$12.45	6.23
Option B [\$243,000]	\$14.58	0

Daniel's APO paid him the retroactive 1.0 percent pay raise on the pay date associated with the *sixth* pay period that began on or after January 1, 2003. Thus, five pay periods have ended since the 3.1 percent pay raise was effective. Through the first five full pay periods in calendar year 2003, Daniel's actual withholdings and his employing agency's actual contributions were:

Actual Withholdings and Contributions <i>[through the first five full pay periods in 2003]</i>		
	Withholdings	Contributions
Basic [\$83,000]	\$62.25	\$31.15
Option B [\$243,000]	\$72.90	0

With the additional 1.0 percent pay raise, Daniel's basic pay increased to \$81,602, increasing his BIA to \$84,000 and his Option B coverage to three times \$82,000 or \$246,000. Since the additional 1.0 percent pay raise is retroactive to the first pay period that began on or after January 1, 2003, Daniel's withholdings and his employing agency's contributions through the first five full pay periods in calendar year 2003 *should have been*:

Withholdings and Contributions Should Have Been <i>[through the first five full pay periods in 2003]</i>		
	Withholdings	Contributions
Basic [\$84,000]	\$63.00	\$31.50

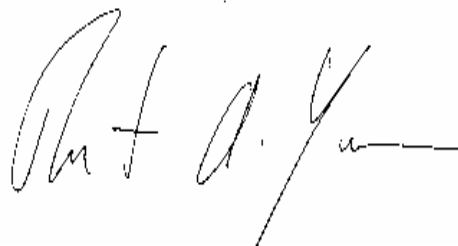
Option B [\$246,000]	\$73.80	0
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Thus, on the pay date associated with the *sixth* pay period that began on or after January 1, 2003, in addition to the normal biweekly withholdings and contributions, Daniel's APO must remit for him:

Additional Withholdings and Contributions <i>[for sixth full pay period in 2003]</i>		
	Withholdings	Contributions
Basic [\$84,000]	\$0.75	\$0.35
Option B [\$246,000]	\$0.90	0

The revised salary tables are located at www.opm.gov/flsa/oca/payrates/index.asp.

If you have any questions regarding this information, we would prefer that you email us at finance@opm.gov, so that we have a record of our communication. You may also contact us on (202) 606-0606.



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