



Benefits Administration Letter

Number: 04-303

Date: March 22, 2004

Subject: 2004 Retroactive Pay Raise – Effect on CSRS/FERS and FEGLI

On March 3, 2004, President Bush signed an Executive Order that provides Federal employees a retroactive 4.26 percent pay raise. As expected, the total 4.26 percent raise will be paid out as 2.7 percent across-the-board and the funds for the other 1.56 percentage points divided up as locality pay. The Executive Order raises the average 2 percent that took effect in January by default because no raise figure was legislated last year, and will be *retroactive* to the first day of the first pay period that began on or after January 1, 2004.

For both CSRS/FERS and Federal Employees' Group Life Insurance Program (FEGLI) purposes, the 2.26 percent average retroactive pay increase *is* basic pay. As a consequence, it will require the following actions on the parts of the payroll provider:

Retirement

Payroll providers must remit CSRS/FERS withholdings and contributions to OPM on the 2.26 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 2004, payroll providers 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 2.26 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.

Payroll providers 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, 2004. The following illustration will help clarify this:

Sally Jones is 42 years-old and works in Tampa, FL. She has Basic life insurance and two multiples of Option B and in 2003 had basic pay of \$70,346, which she receives biweekly. Sally's Basic life insurance amount (BIA) was \$73,000 and her Option B coverage was two times \$71,000 or \$142,000.

On the effective date of the 2 percent pay raise, Sally's basic pay became \$71,753, increasing her BIA to \$74,000 and her Option B coverage to two times \$72,000 or \$144,000. Effective with the first pay period that began on or after January 1, 2004, Sally'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, 2004]</i>		
	Withholdings	Contributions
Basic [\$74,000]	\$11.10	\$5.55
Option B [\$144,000]	\$8.64	0

Sally's APO paid her the retroactive 2.26 percent average pay raise on the pay date associated with the fifth pay period that began on or after January 1, 2004. Thus, four pay periods have ended since the 2.0 percent pay raise was effective. The first four full pay periods in calendar year 2004, Sally's actual withholdings and her employing agency's actual contributions were:

Actual Withholdings and Contributions <i>[through the first four full pay periods in 2004]</i>		
	Withholdings	Contributions
Basic [\$74,000]	\$44.40	\$22.20
Option B [\$144,000]	\$34.56	0

An additional 2.26 percent pay raise, Sally's basic pay increased to \$73,342, increasing her BIA to \$76,000 and her Option B coverage to two times \$74,000 or \$148,000. Since the additional 2.26 percent pay raise is retroactive to the first pay period that began on or after January 1, 2004, Sally's withholdings and her employing agency's contributions through the first four full pay periods in calendar year 2004 *should have been*:

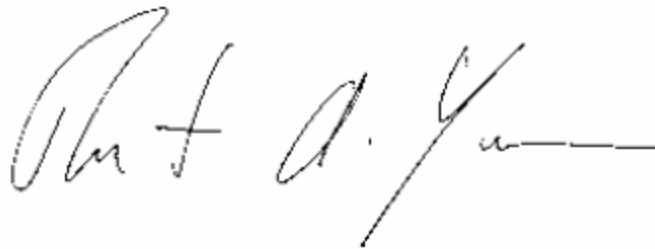
Withholdings and Contributions Should Have Been <i>[through the first four full pay periods in 2004]</i>		
	Withholdings	Contributions
Basic [\$76,000]	\$45.60	\$22.80
Option B [\$148,000]	\$35.52	0

Thus, on the pay date associated with the fifth pay period that began on or after January 1, 2004, in addition to the normal biweekly withholdings and contributions, Sally's APO must remit for her:

Additional Withholdings and Contributions <i>[for fifth full pay period in 2004]</i>		
	Withholdings	Contributions
Basic [\$76,000]	\$1.20	\$0.60
Option B [\$148,000]	\$0.96	0

The revised salary tables are located at <http://www.opm.gov/oca/04tables/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.



Robert A. Yuran, Manager
Financial Policy Group
Center for Financial Services