



ENTITLEMENT TO CONTINUATION PAY (CP)

CFS/PFM CHECKLIST

NAVY FINANCIAL READINESS

Congratulations on reaching this important milestone in your Navy career — the point where you are approaching eligibility for Continuation Pay (CP). Use this checklist and accompanying handouts to help reassess your career goals and make important personal financial decisions as they pertain to CP.

HANDOUTS

- ✓ Spending Plan Worksheet
- ✓ Military Consumer Protection
- ✓ Sources of Help for Military Consumers
- ✓ Military Retirement
- ✓ Entitlement to Continuation Pay (CP)
- ✓ Basic Investing

Counselor: Use this checklist and the listed handouts as a solution-focused tool to help Sailors, in a classroom setting or counseling session, set goals, establish priorities, and develop a plan of action. Space is provided to add local resources and reminders about additional topics. If you need additional information and referrals, contact your local Fleet and Family Support Center (FFSC) staff.



BASIC FINANCE

- ☐ Update your personal spending plan using the *Spending Plan Worksheet*. A good spending plan helps you manage your money, plan for your financial goals, and prepare for emergencies. Here are four steps financial experts suggest to get started.

Counselor: Inform counselees that you can provide a **Spending Plan Worksheet** as well as more detailed templates with features that can help them understand their financial situation and reduce excessive debt.

Step 1: Understand your current situation.

In this step, it's important to understand what's REALLY going on with your money today. Start tracking all your income and spending for the next 30 days. How you do the tracking is up to you, but what's important is you do it.

Step 2: Know where your money should go.

Financial experts offer these general guidelines when budgeting your money:

- Try to save and/or invest 10% – 15% of pretax pay.
- Strive to keep transportation expenses including car payments, insurance, gas and maintenance to 15% – 20% of pretax pay.
- Limit housing expenses, including mortgage or rent payment, taxes, utilities, and maintenance to your Basic Allowance for Housing or 25% of pretax pay.

Step 3: Create a plan.

Build a plan for setting aside money and putting limits on how much you'll spend each month per category.

- Prioritize your financial goals.
- Establish an emergency fund. Financial experts suggest you should keep at least three to six months of living expenses in reserve. If you do not have that much saved, consider setting aside a little each paycheck to help get you there.

Counselor: Share with counselees the concepts of paying yourself first, automating savings, and keeping their emergency fund in a separate account. Remind counselees they can make saving effortless by setting up an automatic transfer through their bank or an allotment, time permitting.

Step 4: Make adjustments.

Update your spending plan as your life changes. Monitor your plan until you have fully adjusted your finances to reflect your new situation.



- ☐ Prepare for possible tax implications of CP.

The IRS views CP as earned income, therefore taxable. Payment can be split into installments distributed annually to potentially reduce the tax liability incurred by receiving CP as a lump sum. The installments can be spread out up to four years. Each Sailor's situation is unique, so consider speaking with a tax professional.

Counselor: *Inform counselees that the installments can be spread out up to four years. This may or may not be beneficial based on their personal tax situation, so encourage them to speak with a tax professional to make an informed decision.*

Additional notes: _____



CONSUMER PROTECTION

- ☐ Review the *Military Consumer Protection* Handout for additional information on identity theft, the Servicemembers Civil Relief Act (SCRA), and Military Lending Act (MLA).

Counselor: *Remind counselees the base legal office can assist by reviewing contracts to help counselees from falling prey to predatory lenders and fraudsters.*

- ☐ Protect yourself from misleading consumer practices and know basic procedures for handling a consumer complaint or dispute. Review the *Sources of Help for Military Consumers* Handout.

Additional notes: _____



PLANNING FOR THE FUTURE

- ☐ Understand the basics of the Blended Retirement System by reviewing the *Military Retirement* Handout.
 - The Blended Retirement System, or BRS, blends the traditional legacy retirement pension (defined benefit) with contributions to a Sailor's Thrift Savings Plan account (defined contribution).
 - The TSP is similar to the retirement plans offered by many private employers as it offers similar types of savings and tax benefits. It is also the same defined contribution plan thousands of Department of Defense (DoD) and federal government civilians take advantage of for their retirement savings.
 - CP is a one-time, midcareer incentive payment offered to eligible Sailors who are covered under the BRS in exchange for additional service. CP is in addition to any other career field-specific incentives or retention bonuses.
- ☐ Know more about CP. Review the *Entitlement to Continuation Pay (CP)* Handout for more information.
 - You must elect to receive CP before starting your 12th year of service (calculated from a Sailor's Pay Entry Base Date).
 - CP is targeted at the midcareer mark.
 - Most Sailors in BRS who reach the 12-year mark will be eligible to request CP. However, each Service determines the timing and the amount.
 - Please note, any unearned portion of the CP will be subject to repayment if you do not complete your continued service obligation.

- ☐ Calculate how much CP you will receive. Refer to the *Entitlement to Continuation Pay (CP)* Handout provided and use the pay rates at <https://militarypay.defense.gov/BlendedRetirement> to help you determine the amount of money you will potentially receive.
 - Active Duty Sailors, including Full-Time Support (FTS) personnel, may be eligible for a CP multiplier of 2.5.
 - Members of the Reserves in drilling status may be eligible to receive a CP multiplier of 0.5.
 - Each Service will determine and publish its own guidance on CP every calendar year. Pay rate multipliers may be based on Service-specific retention needs, specialty skills and hard-to-fill positions, similar to career field incentives and re-enlistment bonuses.
- ☐ Put CP to good use. Review the *Entitlement to Continuation Pay (CP)* Handout for more information.

Additional notes: _____



SAVING AND INVESTING

- ☐ Evaluate your retirement goals and review TSP annual contribution limits.

Important note: You should keep the IRS annual contribution limit in mind when deciding how much you will contribute to your TSP account from your CP. Exceeding the IRS limit early could result in your monthly auto payments into your TSP account to stop before December, causing you to lose out on government matching contributions. Review the *Military Retirement* Handout for more information on TSP matching contributions.

Counselor: *Inform counselees that they only receive government matching contributions on the first 5% of their basic pay that is contributed each pay period. So, if they reach their annual limit earlier in the year and their own contributions stop, the government matching contributions will also stop.*

- ☐ Review the *Basic Investing* Handout to learn more about investing for retirement, compound earnings and fundamentals of investing.



RESOURCES

- ☐ Ask for help. You don't have to navigate financial decisions regarding CP alone. Help is just a visit, call, click or download away..
 - **Visit** a personal financial counselor/educator at your local Fleet and Family Support Center who can help you find answers to questions about money management, debt, saving and investing.
 - **Call** Military OneSource at 1 (800) 342-9647 for phone or video financial counseling with a professional financial counselor.
 - **Click** <https://www.militaryonesource.mil> for financial education resources at your fingertips.
 - **Download** the MyNavy Financial Literacy App to stay connected and find the latest news on CP rates.

Counselor: *After you have completed this checklist with the counselees, encourage them to ask questions, especially about topics that the checklist did not address. Are there any additional resources for which you should make a referral? Now is a great opportunity to see what other services the Service member might benefit from.*

Additional notes: _____