



# Entitlement to Continuation Pay (CP)

OPNAV-ECPFRT-2.0

## Instructor Guide

## I. COURSE ORGANIZATION & AGENDA

The *Entitlement to Continuation Pay (CP)* course is organized into six parts:

1. **Introduction and Agenda** (2 minutes)
2. **Basic Finance** (5 minutes)
3. **Consumer Protections** (5 minutes)
4. **Planning for the Future** (25 minutes)
5. **Saving and Investing** (5 minutes)
6. **Summary and Resources** (3 minutes)

**TOTAL:** 45 minutes

## II. LEARNING OBJECTIVES




### Terminal Learning Objectives (TLOs)

1. Understand the fundamentals of creating and managing a spending plan, and the importance of updating a spending plan.
2. Understand the fundamentals of income tax and common tax benefits, and potential changes to tax situation.
3. Recognize and understand how to protect yourself from misleading consumer practices and complaints.
4. Comprehend the components of Service member's military retirement system and the importance of preparing for retirement.

### III. CHAPTER PREPARATION

Sections labeled “**INSTRUCTOR NOTE:**” include additional information for instructor background, as well as activities that provide practical application of key learning points. Instructor notes contain an icon and appear in a shaded text box for easier recognition.

**CONTENT ICONS** — The following icons are used throughout the guide:

<div><div><b>INSTRUCTOR NOTE:</b></div><div></div></div>	<p><b>Instructor Note</b> – (indicates additional information related to the content for the instructor)</p> <p><b>Checklist and Handout</b> – (indicates a checklist or handout is associated with the content)</p> <p><b>Learning Activity</b> – (indicates a learning activity)</p> <p><b>Video</b> – (indicates an optional video)</p>
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**INSTRUCTOR NOTE:** Being prepared for training promotes organization, projects a positive image, and reduces stress.

Be prepared to discuss the checklist and handouts in class. You should familiarize yourself with this content so you can effectively discuss each document during your presentation.

While this guide is written as a script, avoid reading it word-for-word. Familiarize yourself ahead of time so you feel comfortable covering the material in your own words. An in-depth review of each handout is not required but you are encouraged to manage time, course work, and audience interest during instruction.

Throughout the presentation, the checklist and handouts will be identified with an icon on the PowerPoint and an Instructor Note in this Instructor Guide.

**Materials and equipment needed:**

- Computer with display
- *Entitlement to Continuation Pay (CP)* course PowerPoint slides

*Optional:*

- Chart paper and easel or whiteboard and markers
- Paper, pens, pencils

**Forms and Handouts:**

- *Entitlement to Continuation Pay (CP)* Counselee Checklist
- Course sign-in sheet
- Course evaluations

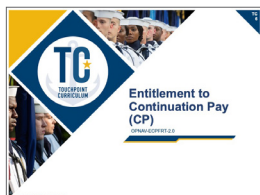
*Optional:*

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

**Videos:**

<https://finred.usalearning.gov/SPL/ServiceResources/NavyResource/TouchpointCurriculum/ContinuationPay>

## IV. CONTENT



SLIDE 1

### Introduction

#### Facilitator Introduction

Introduce yourself.

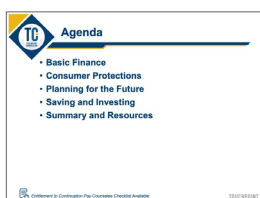
Hello, my name is \_\_\_\_\_.

I am a \_\_\_\_\_.

(Describe your experience as a facilitator or with personal financial management.)

Welcome to the Entitlement to Continuation Pay course. This is an opportunity to understand what Continuation Pay is, how to apply for it, and how best to use it.

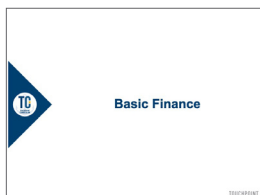
**Disclaimer:** *The information provided in this course does not constitute a formal endorsement of any company, its products, or services by the military. Specifically, the appearance or use of external hyperlinks does not constitute endorsement by the military of the linked websites, or the information, products, or services contained therein. The military does not exercise any editorial control over the content you may find in these resources. The intent is to provide informative material to assist Service members and their families in identifying or exploring multiple options.*



SLIDE 2

### Agenda

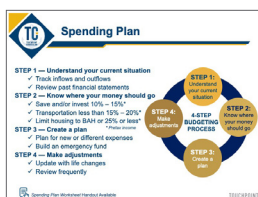
You are entering into the second half of your military career, so it's a great time to refocus on your finances. Today we will discuss the following four topics: **Basic Finance**; **Consumer Protections**; **Planning for the Future**; and **Saving and Investing**.



SLIDE 3

### Basic Finance

Before we turn to the main topic of today's course, Continuation Pay, we're going to begin by covering two fundamental financial topics. First, we'll discuss the importance of a spending plan and the steps you can follow to create one. Next, we'll cover tax considerations and how Continuation Pay may affect your tax situation.



## SLIDE 4

## Spending Plan



**INSTRUCTOR NOTE:** Review the *Spending Plan Worksheet Handout*.

A spending plan, also called a budget, is an important tool that can help you manage your money, plan for your financial goals, and prepare for emergencies. Now that you are eligible for Continuation Pay, it is a good time to review your spending plan or set one up if needed. How you use Continuation Pay is up to you, but it is a good idea to consider how it can help you stay on track with your spending plan and achieve your goals. Here are four steps financial experts recommend.

### 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 your spending and income for the next 30 days using statements. How long you do the tracking is up to you.

### Step 2 — Know where your money should go

Financial experts recommend these general guidelines when budgeting your money:

- Save and/or invest 10% – 15% of pretax income.
- 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, maintenance, etc. to BAH or 25% of pretax pay.

### Step 3 — Create a plan

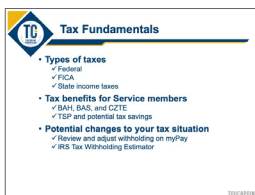
Build a plan for setting aside money and putting limits on how much you'll spend each month per category.

Prioritize your financial goals. Whether your goal is to pay off debt, save for a major purchase, or something else, Continuation Pay can help you achieve your 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. Consider using Continuation Pay toward fully funding your emergency fund if it is not at the three to six months' level now.

#### **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.



#### **SLIDE 5**

## **Tax Fundamentals**

Let's cover some high-level information that will help you better understand your tax situation. On the next slide, we'll talk about specific tax implications related to Continuation Pay.

### **Types of taxes**

There are three basic types of income taxes. Federal taxes fund the federal government and federal programs. FICA taxes fund Social Security and Medicare. Lastly, state income taxes fund state governments and programs.

### **Tax benefits for Service members**

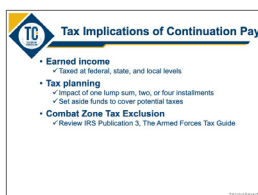
As a Service member, you are able to take advantage of tax benefits like some pays and entitlement are not taxed including BAH, BAS and pay earned in defined combat zones or direct support areas. Tax savings related to your TSP account may be available as well.

### **Potential changes to your tax situation**

Review your tax withholding regularly through your myPay account. Consider using the Tax Withholding Estimator at <https://www.irs.gov/individuals/tax-withholding-estimator>. This tool can help you determine how your withholding may change by factoring in Continuation Pay.

Please note, the Navy Personnel and Pay (NP2) system is currently scheduled to replace myPay for payroll functions in Calendar Year 2024.





## SLIDE 6

# Tax Implications of Continuation Pay

## Earned income

Continuation Pay is considered earned income and will be taxed accordingly for federal, state, and local taxes.

## Tax planning

You do not have to take all of your Continuation Pay at once. Based on your situation, taking it in one lump-sum installment could move you into a higher tax bracket. If so, you might want to consider receiving it in two or four installments to spread the tax burden over more than one year.

## Combat Zone Tax Exclusion

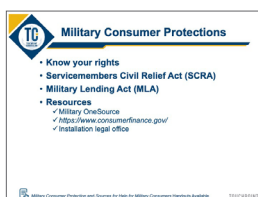
Continuation Pay received while serving in a combat zone tax exclusion (CZTE) area will be free of federal income taxes. Refer to the *Entitlement to Continuation Pay (CP)* Handout and IRS Publication 3: The Armed Forces' Tax Guide for more information.



## SLIDE 7

# Consumer Protections

Next, we'll cover important information on protecting yourself as a military consumer. You have worked hard to receive Continuation Pay, so let's learn about two laws intended to protect Service members as consumers. Also, we'll cover the actions to take to avoid scams and protect your personal information.



## SLIDE 8

# Military Consumer Protections



**INSTRUCTOR NOTE:** Review the *Military Consumer Protection* Handout.

## Know your rights

It's important to know your rights as a member of the military under the Servicemembers Civil Relief Act (SCRA) and Military Lending Act (MLA). Let's review the *Military Consumer Protection* Handout as we discuss SCRA and MLA.

## Servicemembers Civil Relief Act (SCRA)

Under SCRA, active-duty Service members, reserve members, and members of the National Guard (when on active service) are protected under the law. SCRA (for all) begins on the first day of active duty, which means when the person leaves home for basic or occupational training.

The rights and protections include: ability to terminate cellphone, cable and internet contracts; termination of residential and auto leases; postponement of foreclosures and evictions; installment contract protection; 6% interest rate cap on debts incurred before active duty; stay of certain civil court proceedings; delay of enforcement related to certain taxes, including personal and real property taxes; life insurance coverage protections.

The SCRA can reduce the interest rate on student loans to 6% for reserve members ordered to active duty. For more information about the SCRA visit <https://militaryonesource.mil> and search the keyword “SCRA.”

## Military Lending Act (MLA)

Under the Military Lending Act (MLA), active-duty Service members (including active Guard and reserves and covered dependents), cannot be charged an interest rate higher than 36% on most consumer loans, along with other protections. This act does not cover peer-to-peer loans. Visit <https://www.consumerfinance.gov> for more information about the MLA.

If you need help asserting your rights with your lenders or have questions about your legal obligations, get help from your installation’s legal office.



### SLIDE 9

## Misleading Consumer Practices



**INSTRUCTOR NOTE:** Review the *Sources of Help for Military Consumers* Handout.

### Recognize scams

Avoid offers to join multilevel marketing organizations, and steer away from somebody offering you a way to get rich quick. Remember, if it sounds too good to be true, it probably is.

## Protect yourself

Before giving your money to anyone else, even a legitimate business, be sure to protect yourself.

Before spending or investing money, do your research and comparison shop. If you're unsure, give yourself extra time to sleep on it. Don't give in to pressure. Be mindful of businesses requiring you to set up allotments on the spot. This is illegal.

## Report a complaint

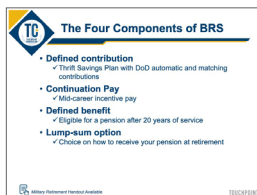
If you feel you've been cheated, report it. The *Sources of Help for Military Consumers* Handout gives you a step-by-step process on how to effectively complain. If you're not sure where to direct your complaint, contact your installation's legal office.



**SLIDE 10**

## Planning for the Future

Next, we'll cover planning for the future. As one of the four components of the Blended Retirement System (BRS), Continuation Pay is part of your retirement system and can help you achieve your future goals. Let's talk about each component before covering Continuation Pay in detail.



**SLIDE 11**

## The Four Components of BRS



**INSTRUCTOR NOTE:** Review the *Military Retirement* Handout and play the optional video *Military Retirement Overview*.

Let's use the *Military Retirement* Handout to briefly discuss the four components of the BRS.

### Defined contribution

The defined contribution component includes the Thrift Savings Plan (TSP), which is like a civilian 401(k) plan. It offers the opportunity for Service members to save and invest for retirement. Under the BRS, you may receive up to 4% in service matching contributions, on top of the automatic 1% contribution into your TSP, which are deposited into the Traditional TSP. This means that if you save 5% of your basic pay in the TSP, you will receive the 1% automatic contribution and 4% matching contribution for a total contribution of 10%. Automatic contributions begin after 60 days of service and vest (meaning they're yours to keep) after two years of service. Matching contributions begin after two years of service and vest immediately. Automatic and matching contributions continue through the end of the pay period during which you reach 26 years of service.

### Continuation Pay

The Entitlement to Continuation Pay is the purpose of today's training and will be covered in detail in the following slides. At a high level, Continuation Pay is a mid-career incentive pay, like a bonus. It is paid between eight and 12 years of service.

### Defined benefit

The defined benefit, or pension, component of the BRS is the next topic we'll cover. Active-duty Service members must have 20 years or more of service to be eligible. The monthly pension is calculated using this formula:

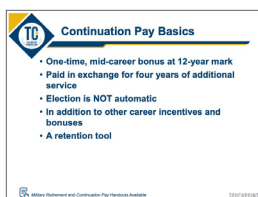
$$2.0\% \times \text{Years Served} \times \text{Retired Pay Base}$$

(Average of highest 36 months of basic pay)

*\*Reserve members divide accumulated retirement points by 360 for "Years Served," assuming they have earned enough qualifying years towards retirement.*

### Lump-sum option

The fourth component of the BRS is the lump-sum option. This option gives you choices at retirement. You can choose to receive a 25% or 50% discounted portion of your monthly pension benefit in exchange for a lump-sum payment at retirement. Your pension reverts to the entire amount at the Social Security age of full retirement, which for most is 67.



## SLIDE 12

## Continuation Pay Basics

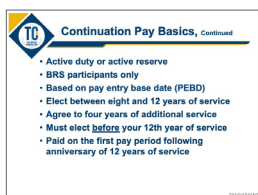


**INSTRUCTOR NOTE:** Refer to the *Military Retirement and Entitlement to Continuation Pay* Handouts.

Next, let's dive into the details on Continuation Pay.

Continuation Pay is one component of the Blended Retirement System (BRS). It's a one-time, mid-career bonus currently paid at 12 years of service in exchange for four additional years of service. Your election to receive Continuation Pay is NOT automatic.

This one-time bonus payment is in addition to any other career field-specific incentives or retention bonuses you may receive or otherwise be eligible to receive. It is essentially a retention tool.



## SLIDE 13

## Continuation Pay Basics, continued

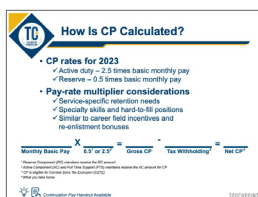
This one-time payout is available at the mid-career mark to active duty and active reserve Service members enrolled in the BRS. It is payable between completion of eight years of service, but before completion of 12 years of service. Annually, the Services determine the timing of when Continuation Pay will be paid within the eight to 12 years of service time frame.

Service members receive Continuation Pay in return for four additional years of obligated service.

Currently, all services award Continuation Pay at 12 years of service from pay entry basic date (PEBD). You can request Continuation Pay at 11 years and six months of service.

Please pay close attention to the Continuation Pay timeline. You must elect before your 12th year of service. This is an irrevocable election so if you miss this window of opportunity, it cannot be undone.

Finally, the money is actually paid on the first pay period following your 12th anniversary.



## SLIDE 14

## How Is CP Calculated?



**INSTRUCTOR NOTE:** Play the optional video, *Calculating How much CP You May Receive*.

### CP rates for 2023

The calculations are different for active duty and reserves. Currently the active-duty multiplier is 2.5 times monthly basic pay and the reserve multiplier is 0.5 times monthly basic pay.

**INSTRUCTOR NOTE:** Review the current BRS Continuation Pay guidelines as published on <https://militarypay.defense.gov/BlendedRetirement/>.

$$\text{Monthly Basic Pay} \times \text{0.5}^1 \text{ or } \text{2.5}^2 = \text{Gross CP} - \text{Tax Withholding}^3 = \text{Net CP}^4$$

<sup>1</sup> Reserve Component (RC) members receive the RC amount

<sup>2</sup> Active Component (AC) and Full Time Support (FTS) members receive the AC amount for CP

<sup>3</sup> CP is eligible for Combat Zone Tax Exclusion (CZTE)

<sup>4</sup> What you take home

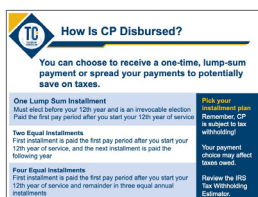
### Pay-rate multiplier considerations

Multipliers – Active-duty range is 2.5 to 13 times monthly basic pay and Reserves range is 0.5 to 6 times monthly basic pay (as if serving on active duty). Other branches of service may use a different multiplier. The Navy reviews its multiplier every fiscal year.

Pay-rate multipliers may be based on service-specific retention needs, specialty skills and hard-to-fill positions, which are similar to career-field incentives and re-enlistment bonuses.



**ACTIVITY:** Request that student use the formula to calculate their potential Continuation Pay.



## SLIDE 15

## How Is CP Disbursed?

There are three options available for payout of Continuation Pay:

1. **One Lump Sum Installment** — Paid the first pay period after you start your 12th year of service.
2. **Two Equal Installments** — You'll receive the first installment the first pay period after you start your 12th year of service and the next installment will be paid the following year.
3. **Four Equal Installments** — You'll receive the first installment in the first pay period after you start your 12th year of service and the remainder in three equal annual installments.

Let's revisit our discussion on taxes from the beginning of the course. Remember, Continuation Pay is subject to federal, state, and local income taxes. Make sure you withhold the correct amount throughout the year to avoid a significant tax bill when you file your taxes. Use the IRS Tax Withholding Estimator at <https://www.irs.gov/individuals/tax-withholding-estimator> to determine the right amount for your situation. Then, go to myPay to adjust your withholding as needed.



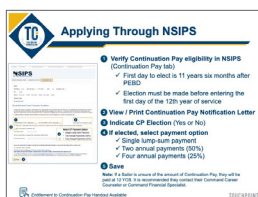
## SLIDE 16

## Applying for Continuation Pay

**INSTRUCTOR NOTE:** Each uniformed service must document how a Service member applies for Continuation Pay and how the application is processed by their service.

Each branch of service has its own specific process to apply for Continuation Pay. Currently the Navy has two ways to apply:

1. **Complete NAVPERS 1070/613 (Page 13) with your command career counselor**
2. **Elect through NSIPS** (Navy Standard Integrated Personnel System)



## SLIDE 17



## Applying Through NSIPS

**INSTRUCTOR NOTE:** Remind Service members that electing CP is an irrevocable decision and it requires an additional service obligation. Refer to the *Entitlement to Continuation Pay Handout*.

The five steps to apply for Continuation Pay on NSIPS are:

### 1. Verify Continuation Pay eligibility in NSIPS

- ✓ First day to elect is 11 years and six months after PEBD
- ✓ Election must be made before entering the first day of the 12th year of service

### 2. View and print Continuation Pay notification letter

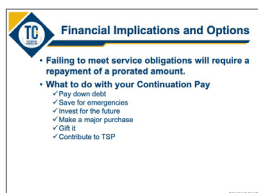
### 3. Indicate CP election (Yes or No)

### 4. If elected, select payment option

- ✓ Single lump-sum payment
- ✓ Two annual payments (50%)
- ✓ Four annual payments (25%)

### 5. Save

Refer to the NSIPS image on the screen and the handout for more details.



## SLIDE 18



## Financial Implications and Options

**INSTRUCTOR NOTE:** Play the optional video, *Other CP Considerations*.

**If you are unable to complete your service obligations, you MUST repay all or part of your Continuation Pay.**

Taking the installment option may help alleviate this financial burden since you only have to pay back the portion you received instead of the full amount. It will be prorated for the number of years served.

### What to do with your Continuation Pay

How you decide to use CP is up to you and should be based on your current financial situation. Take a thoughtful approach and make the most of this money. One great place to start is by reviewing your spending plan to get a sense of where your money is currently going.



Here are some options for your Continuation Pay. Refer to *Entitlement to Continuation Pay* Handout for more details:

- Pay down debt
- Save for emergencies
- Invest for the future
- Make a major purchase
- Gift it

Remember, Continuation Pay is considered a special pay. It can be invested into the TSP but a contribution from Continuation Pay will not be matched. Only contributions from basic pay are eligible for service matching contributions.

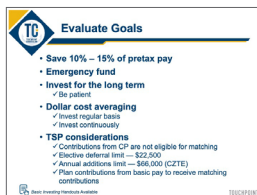


## SLIDE 19

### Saving and Investing

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The last topic we'll cover today is how Continuation Pay can help you achieve your saving and investing goals.



## SLIDE 20

### Evaluate Goals

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#### Save 10% — 15% of pretax pay

Earlier in the course, we covered the importance of creating and following a spending plan. Financial experts recommend saving and/or investing 10% to 15% of your pretax pay. As you review your spending plan, consider how Continuation Pay can help you meet your savings goals.

#### Emergency fund

Next, think about your emergency fund. If it isn't fully funded with three to six months' worth of living expenses, setting aside Continuation Pay for that purpose may be a good move.



**INSTRUCTOR NOTE:** Review the *Basic Investing* Handout.

### **Invest for the long term**

If you choose to invest your Continuation Pay, remember that you're in it for the long-term. Be patient and allow your investments to grow over time through compound interest. No one can accurately predict market fluctuations so focus on staying invested for the long-term instead of trying to time the markets.

### **Dollar cost averaging**

This is a great way to invest consistently over time. With this method, you invest a set amount of money on a regular basis, whether the market is moving up or down. This strategy spreads investment risk over time. When prices are high, you buy fewer shares, and when prices are low you buy more shares. A word of caution on investing — there is a risk of loss. There is no protection against loss when the market declines. Try to invest continuously, even when the market is down.

### **TSP considerations**

You may choose to invest your Continuation Pay in the TSP. Remember, Continuation Pay is considered a special pay. It can be invested into the TSP but a contribution from Continuation Pay will not be matched. Only contributions from basic pay are eligible for service matching contributions. If you're interested in contributing all or a portion of Continuation Pay into the TSP, you must adjust your TSP incentive pay percentages in myPay at least a full pay-cycle PRIOR to your scheduled Continuation Pay distribution.

The amount you can save in the TSP is limited to the elective deferral limit, which is \$22,500 for 2023. Understand how contributing your Continuation Pay could affect your future contributions. Will Continuation Pay max you out for the year? If so, you will lose the match on future contributions until Jan. 1 of the next year.

Keep in mind, if you are serving in a combat zone tax exclusion area, you are allowed to contribute up to the annual additions limit, which is \$66,000 for 2023. However, Roth contributions cannot exceed the elective deferral limit (\$22,500 for 2023).

Remember that you only receive government matching contributions on the first 5% of your basic pay that is contributed each pay period. So, if you reach the annual limit earlier in the year and your own contributions stop, the government matching contributions will also stop.

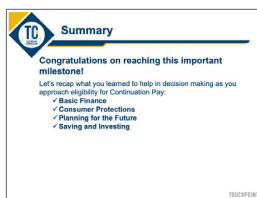


## SLIDE 21

## Summary and Resources

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We're near the end of our presentation on Continuation Pay. Let's recap the material and talk about additional resources.



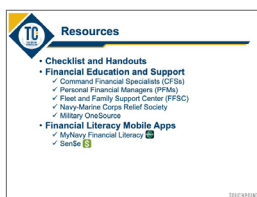
## SLIDE 22

## Summary

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Congratulations on reaching this important milestone in your military career. As you approach eligibility for Continuation Pay, keep in mind what you learned to help in decision making. We covered the following topics related to Continuation Pay:

- Basic Finance
- Consumer Protections
- Planning for the Future
- Saving and Investing



## SLIDE 23

## Resources

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Please read through your checklist and handouts and refer back to them. They are a great resource to help navigate the financial decisions you'll need to make regarding Continuation Pay.

Remember you are not alone! You have many layers of support to help you learn more and make good financial decisions.

You can talk to your CFS at your command or meet with a PFM and attend a class at your local Fleet and Family Support Center. You can call Military OneSource for additional assistance. This is a great option for flexibility of scheduling since the call center has extended hours.

You may also access the FINRED Sen\$e mobile app or the MyNavy Financial Literacy mobile app for assistance with a variety of personal finance issues.



## SLIDE 24

## Thank You!

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Thank you for attending today's training. We wish you the best in your next chapter.