

Major Changes for Military Members: The New Blended Retirement System



National Training Conference for the Pension Counseling and Information Program

Jennifer Erin Brown, MS, JD, LL.M.
Manager of Research


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10:00 to 11:00 am



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Agenda


- » Legacy Retirement System
- » TSP
- » Need for Reforms
- » New Blended Retirement System & Choices
- » Spousal Benefits in the New Blended Retirement System
- » Questions?



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Legacy Retirement Systems

- » Originally developed in the late 1800's to meet four main goals:
 - To keep the military forces of the U.S. young and vigorous and to ensure promotion opportunities for younger members.
 - To enable the armed forces to maintain competitive with private-sector employers and the federal Civil Service.
 - To provide a reserve pool of experienced military manpower that can be called upon in a time of war or national emergency to augment active forces.
 - To provide economic security for former members of the armed forces during their old age.



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Legacy Retirement Systems, Cont.

- » Government funded
- » Non-contributory
- » Defined Benefit (DB)

- » Amount of benefit is determined by time served and basic pay at retirement.

- » Eligibility is based on years of active duty, with active duty personnel generally becoming retirement eligible after completing 20 years of service (YOS).
 - For reservists, the system is based on points.

- » Both active duty and reserve retirement systems vest after 20 years of qualifying service.
 - **Though, those who separate prior to 20 YOS receive no benefit.**



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Legacy Retirement Systems - Actives

- » For Active duty personnel, there are three methods of calculating pay
 1. *Final basic pay system*
 - Entered service before 9/8/80
 - Final Basic Pay x 2.5% x Each YOS
 2. *"High Three"*
 - Entered service between 9/8/80 and 1/1/18
 - Average of highest of 3 years of pay x 2.5% x Each YOS



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Legacy Retirement Systems – Actives, Continued

3. Redux
 - Entered service on or after 8/1/86, choice of:
 - A. High Three
 - B. Redux + \$30k "Career Status Bonus"
 - » Under 62: reduction of 1% for each year for any years of service under 30 years
 - 20 year retiree = 20 YOS x 2.5% - 10%
 - 30 year retiree = 30 YOS x 2.5% - 0% [same as High Three]
 - Skewed in favor of longer service!
 - » 62 and Older: High Three



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Legacy Retirement Systems – Reservists

- » Similar to the system for Active duty, reservists must:
 - Complete 20 YOS to receive the benefit
 - The benefit accrues at a rate of 2.5% per year
- » Primary difference is the points system used to calculate qualifying YOS for reservists.
 - One YOS = 50 points
 - Points are earned for a variety of training activities
 - One point for each day of active service
 - 15 points per year for Ready Reserve
 - One point for each day of inactive duty training
 - One point for each period of funeral honors duty
 - One point for every three credit hours of military correspondence courses.
- » The Redux option is not available for reservists.

Legacy Retirement Systems – Disability Retirement

- » Servicemembers who have been deemed unfit for service or who have a permanent disqualifying physical condition may qualify for disability retirement or "Chapter 61 retirement."
 - Allows service members to retire before achieving 20 YOS.
- » Servicemembers who are eligible for disability retirement may select one of two retirement plan options
 1. Longevity Formula
 - $YOS \times 2.5\% \times \text{base pay (final pay or High Three, depending on entrance date)}$
 2. Disability Formula
 - $DOD \text{ disability percentage} \times \text{base pay}$

Thrift Savings Plan (TSP)

- » On top of the Legacy retirement systems discussed in previous slides, members of the military are also eligible to contribute to TSP.
- » TSP is a defined contribution (DC) plan
 - These are separate accounts where individuals contribute a percent of their salary each year and the individuals are responsible for deciding how to invest these funds, and when to withdraw the funds.
 - Similar to a 401(k) plans
- » Servicemembers can elect to contribute 1 to 100% of their pay up to \$18,500, per year, before taxes.

Thrift Savings Plan (TSP), Continued

- » Servicemembers who joined prior to 2008 can receive matching contributions from their branch of service after agreeing to serve on active duty for six years.
- » The matching contributions apply to the first 5% of pay.
 - This is broken down into:
 - Contributions are matched dollar-for-dollar on the first 3% of pay
 - Contributions between 3% and 5% of pay are matched \$.50 for each dollar.
- » **But, servicemembers who joined in 2008 or after are not eligible for matching contributions.**

Need for Reforms

- » **DB plan with a 20 year vesting schedule for active duty military.**
- » **DB plan with a complicated benefit calculation.**
- » **Optional DC with no employer match since 2008**
- » According to RAND, this leads to:
 - Inflexibility
 - one size fits all
 - Inefficiency
 - designed for long-term service
 - Inequity
 - majority of servicemembers leave before obtaining 20 years of service
 - 83% of enlisted and 51% of officers not receiving retirement compensation for their service.

Need for Reforms – 10th QRM

- » Every four years, the President is required by law to direct a comprehensive review of the military compensation system and to forward the review, along with any recommendations, to Congress.
- » The 10th Quadrennial Review of Military Compensation (QRM) in 2005 focused on “the implications of changing expectations of present and potential members of the uniformed services relating to retirement.”
- » It suggested
 - DB plan, like High Three, but with a 10 year vest
 - DC plan with a required employer 2% contribution that increased to 5%, with a 10 year vest

Need for Reforms – 11th QPMC

- » After the 10th QPMC, DOD recommended that the active and the reserve systems more closely align, and proposed that:
 - The points system be reformed so that reserve members would receive one point for each day of service.
 - The points needed for a qualifying year of service would be reduced from 50 points to 35.
- » **Neither the executive branch, nor Congress took any action to modify the military retirement system under the recommendations of the 10th or the 11th QPMC.**
- » **Instead...**



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Need for Reforms – MCRMC

- » The National Defense Authorization Act (NDAA) for FY2013 established a Military Compensation and Retirement Modernization Commission (MCRMC).
- » The final report and recommendations were delivered to Congress on January 29, 2015.
- » **It proposed . . .**



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The New Blended Retirement System

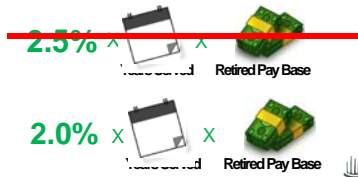
- » Called "BRS"
- » Still offers:
 - Government funded
 - Non-contributory
 - Defined Benefit (DB)
- Amount of benefit is determined by time served and basic pay at retirement.
- Eligibility is based on years of active duty, with active duty personnel generally becoming retirement eligible after completing 20 years of service (YOS).
- For reservists, the system is based on points.
- Also TSP/ DC option



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The New Blended Retirement System

- » What is different:
- Under the final basic or High Three systems, the multiplier for the benefit calculation **was 2.5**
 - **Now it is 2.0**
 - This reduces the annuity for these servicemembers who achieve this benefit.



The New Blended Retirement System

- » What is different:
- Auto-enrollment in the TSP/DC plan.
 - Servicemembers are required to contribute 3% of their monthly basic pay or inactive duty pay beginning the first pay period after the member's 60th day of service.
 - DOD will also contribute 1% of the servicemembers' basic pay to their TSP account.
 - Additionally, DOD will make matching contributions up to 4% of the servicemembers' basic pay from two year and one day after the member first enters service.

The New Blended Retirement System



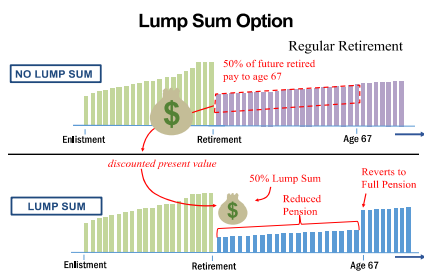
NOTE: Currently serving members who opt-in will see matching contributions immediately

The New Blended Retirement System

- » New Additions:
 - Lump sum payments:
 - In the final basic or High Three systems, servicemembers could only receive an annuity, now they have three options:
 - Monthly annuity beginning at their retirement date
 - 50% discounted lump sum + monthly annuity
 - 25% discounted lump sum + monthly annuity



The New Blended Retirement System



The New Blended Retirement System

- » New Additions:
 - Continuation pay:
 - If the servicemember reached 8 to 12 years of service, in return for a four-year commitment, they would receive 2.5 times their pay for four payments



Servicemembers' Choices

- » Existing servicemembers in active duty, reserve status, and retirees will be "grandfathered" into whatever retirement system they are in.
- » However, those with 12 or less YOS will have the opportunity to opt-into the blended system.
- » New servicemembers will only be eligible for the blended system.
- » Servicemembers began receiving notifications in November, 2016 about their opt-in to the Blended Retirement System (BRS)
- » They have up until December 31, 2018 to opt-into BRS

Servicemembers' Choices, Continued

- » Which is best?

	0-4 Old Systems	0-4 New System	0-5 Old Systems	0-5 New System
PV of Pension Payments	\$838,607	\$670,885	\$937,886	\$743,440
Value of TSP	\$138,595-\$142,389	\$235,106-\$310,862	\$140,667-\$144,505	\$239,207-\$315,138
TOTAL	\$977,202 \$981,096	\$905,991 \$981,748	\$1,078,552 \$1,082,391	\$982,647 \$1,058,578

- » While the old system values exceed those of the new system, the benefit is portability in the new system, as few members vested in their retirement in the old systems.

Spousal Benefits

- » Federal law currently allows state family court judges to award a fair share of an employee's retirement benefit to a former spouse at divorce.
- » Military retirement benefits are not excepted from federal law.

Spousal Benefits, Continued

- » State courts are allowed to award up to 1/2 of a servicemembers' military retirement benefit to former spouses, depending on the circumstances.
 - These are referred to as Qualified Domestic Relations Order (QDRO)
 - Judges usually take into account how long the marriage overlapped the member's military service.
- » **Federal law specifically ONLY applies to the pension or annuity portion of the servicemembers' retirement.**



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Spousal Benefits, Continued

- » **But what about TSP?**
- » The rules for QDROs that apply to private sector retirement plans do not apply to TSP.
 - TSP is not covered by ERISA!
- » Well, what should I do?
 - These assets can still be divided, it just takes a bit more work.



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Spousal Benefits, Continued

- Under 5 CFR § 1653.2:
 - Get an order issued by a Court in the U.S.
 - 50 states, DC, territories, Indian Court as defined by 25 USC § 1301(3).
 - That expressly relates to TSP
 - **It must specify the name "Thrift Savings Plan"**, not
 - » "all retirement benefits"
 - » "Government benefits"
 - » "Federal retirement benefits"
 - » "Thrift Savings,"
 - » "TSP" or
 - » "Thrift Savings Account"



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Spousal Benefits, Continued

- Under 5 CFR § 1653.2:
 - The order must clearly describe the payee's entitlement
 - It can only award a specific dollar amount or fraction or percentage of the participant's account on a specific date.
 - The order can require payment only to the:
 - participant's current spouse;
 - participant's former spouse; or
 - participant's dependents.



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Questions?



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