Introduction to the Blended Retirement System

June 26, 2017
Disclaimer

This is an informational policy briefing **ONLY** and is not intended to provide service members with the financial knowledge necessary to make an opt-in decision.

This briefing **DOES NOT** replace the mandatory Blended Retirement System Opt-In Training Course that **MUST** be completed by all eligible service members.
The Uniformed Services Blended Retirement System

The Military Retirement Benefit

- **Legacy Retirement System**
  - Defined annuity benefit computed as $2.5\% \times \text{Years Served} \times \text{Retired Pay Base}$
  - Must serve at least 20 years

- **Blended Retirement System, blends:**
  - Defined annuity becomes $2.0\% \times \text{Years Served} \times \text{Retired Pay Base}$
  - Automatic & matching TSP

85% of all service members will get retirement benefits

Service members who leave after just 2 years will keep TSP savings + DoD Contributions + Any Earnings
Who is Affected?

• If serving as of December 31, 2017:
  – GRANDFATHERED in current retirement system
  – NO ONE will be automatically moved to BRS

• Many currently-serving members eligible to opt into BRS
  – Active: Fewer than 12 years of total service as of Dec. 31, 2017
  – Reserve: Fewer than 4,320 retirement points as of Dec. 31, 2017

• Eligible members have all of CY 2018 to make their decision
  – Member wants to stay covered under current system – do nothing
  – Member decides BRS is better – can opt in

• New accessions on or after January 1, 2018 covered by BRS
Blended Retirement System Basics

**Defined Benefit**

*For non-regular retirement, at age 60 or earlier with creditable active service*

- Basic qualifications for retirement do not change
- The pension is still the primary component of military retirement

\[
2.0\% \times \text{Years of Service} \times \text{High-36 Month Average of Base Pay} = \text{Monthly Retired Pay}
\]

**Defined Contribution**

<table>
<thead>
<tr>
<th>Individual Contribution</th>
<th>Agency Automatic Contribution</th>
<th>Agency Matching Contribution</th>
<th>Total TSP Monthly Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>1%</td>
<td>0%</td>
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<td>4%</td>
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<td>3.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>5%</td>
<td>1%</td>
<td>4%</td>
<td>10%</td>
</tr>
</tbody>
</table>

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

**Continuation Pay**

- Mid-career incentive designed to maintain force retention
- Payable at 8, but not more than 12 years of service
- AC*: 2.5x to 13x monthly basic pay (RC: 0.5x to 6x)

*Active Guard Reserve (AGR)/Full Time Support (FTS) receive AC continuation pay rates

**Lump Sum**

- May elect lump sum of 25% or 50% at retirement
- Discounted present value from retirement to age 67
- At age 67, reverts back to full annuity
Lump Sum Option

Regular Retirement

- 50% of future retired pay to age 67
- 50% Lump Sum
- Reduced Pension
- Reverts to Full Pension

NO LUMP SUM

- Discounted present value
- 2018 Discount Rate is 6.99%

LUMP SUM

- 50% Lump Sum
- Reduced Pension
- Reverts to Full Pension

Enlistment | Retirement | Age 67
The Uniformed Services Blended Retirement System

Implementation Timeline

- **2016**
  - **June 1**: Leader Course Released
  - **December**: Eligible Opt-In Members Notified

- **2017**
  - **January**: Policy Signed
  - **June**: Opt-In Training Began
  - **June**: Online Comparison Calculator Available
  - **December 31**: Last Date of Eligibility for Coverage Under Legacy Retirement System with opportunity to Opt-In to BRS

- **2018**
  - **January 1**: BRS Goes Into Effect
  - **December 31**: Opt-In Period Ends
  - **June**: New Accessions Course Released
  - **June**: All New Accessions Covered Under BRS
  - **January 1**: Online Comparison Calculator Available

OPT-IN WINDOW

Opt-In Window Ends

JANUARY 1

DECEMBER 31
BRS Training

**Leader Course:** Provides leaders a basic familiarity of BRS and an understanding of “opt-in” and major milestones for implementation. Available as of June 1, 2016.

**Financial Educator Course:** Counseling scenarios to equip financial professionals and retirement experts. Available as of October 2016.

**Opt-In Course:** Provides “opt in” population a comparison of current and new retirement systems as well as training on the importance of lifelong saving for retirement. Computer-based course was released January 31, 2017. Course is **MANDATORY** for all identified as “eligible to opt-in”

**New Accession Course:** Specialized course for members who join the service on or after January 1, 2018; highlights the new components BRS and includes retirement planning calculators.
Mandatory Opt-In Training

- This policy briefing does NOT count for your mandatory BRS opt-in training.

- Mandatory training can be completed via:
  - Joint Knowledge Online (CAC required)
  - Military One Source (non-CAC enabled)
  - Via some Service’s learning management systems

- Pre and Post test, plus checks on learning, ensures knowledge transfer

- Course is approximately 2 hours.

- Turn in your certificate of completion to your training manager.
Online BRS Comparison Calculator will allow service members to compare estimated benefits under both plans prior to making a decision.

Walks service members through key information needed to make an effective comparison.

Users can adjust data to see how changes to their career and savings will impact retirement benefits.

Available Spring 2017

Comparison Calculator
http://militarypay.defense.gov/BlendedRetirement
Blended Retirement System Benefits

- Greater portability of retirement benefits
- Earlier savings for retirement
- No longer ALL or NOTHING retirement plan
- Covers more people
- Recruiting incentive
- Continuation Pay adds incentive to stay for full career
- Lump Sum option gives choices at retirement
- Encourages saving for retirement

Decision to opt-in is the member’s only – DoD has no preference
Questions

http://militarypay.defense.gov/blendedretirement
The Uniformed Services Blended Retirement System

BACKUP
Opt-In Eligibility Choice

Serving as of December 31, 2017

As of December 31, 2017:
- ACTIVE COMPONENT
  Fewer than 12 Years Service
- RESERVE COMPONENT
  Fewer than 4,320 points

then

Take Mandatory BRS Opt-In Training in CY17

if

Why 4,320 points?

In CY18

can

Do Nothing and Stayed Covered by Legacy System

Choose Blended Retirement System
RC Eligible for BRS?

- Army National Guard
- Army Reserve
- Air National Guard
- Air Force Reserve
- Navy Reserve
- Marine Corps Reserve
- Coast Guard Reserve
- Ready Reserve Corps of the Public Health Service
- Commissioned Corps

Active Guard / Reserve
Full-Time Support (AGR/FTS)*

- Follow RC rules for Opt-In Eligibility
- Follow AC rules for Continuation Pay

Selected Reserve

- Drilling Unit Reservists
- Individual Mobilization Augmentees (IMA)
  - “drilling reservists”
  - “traditional Guardsmen”
  - “M-days”

Individual Ready Reserve (IRR)

- Can only opt-in if return to “paid status”

Active Status List of the Standby Reserve

- Can only opt-in if return to “paid status”

* NOTE: AGR/FTS are actually part of the Selected Reserve, but some conditions for AGR/FTS differ under BRS, so they are listed separately.
Why 4,320 Points?

“(2) ELECTION TO PARTICIPATE IN MODERNIZED RETIREMENT SYSTEM.—
“(A) IN GENERAL.—Pursuant to subparagraph (B), a person performing reserve component service on December 31, 2017, who has performed fewer than 12 years of service (as computed in accordance with section 12733 of this title), may elect...

How do we interpret the statutory requirement to calculate YOS for reserve members?

10 U.S.C. §12733 mandates use of retirement points to determine the number of “years of service” for determining eligibility to opt into BRS

- 10 U.S.C.§12733 governs how YOS calculated for non-regular retirement
- YOS derived by dividing total retirement points by 360
  - 12 YOS = 4,320 points under this provision
- Many RC members will be eligible based on points but have many more actual years of service for seniority
• National Guard and Reserve members may qualify for a Regular or a Non-Regular Retirement

Regular Retirement

• Requires 20 active service years
• Retired pay begins on the 1st day of the 1st month following retirement

Non-Regular Retirement

• Requires 20 “qualifying years” of service
• Qualifying year means 50 or more points of any type (active duty, AT, ADT, IDT, Funeral Honors, membership points, etc.)
• Retired pay does not begin until age 60, although some members may qualify for reduced age retirement*
### Non-Regular Retirement

**Example: 0-5 retires after 22 years of service in the Reserve Component**

1. **Total Retirement Points**
   - 4,860 points

2. **Divide by 360 to get equivalent Years of Service**
   - \[ \frac{4,860}{360} = 13.5 \text{ YOS} \]

3. **Multiply Equivalent YOS by Retirement Multiplier**
   - \[ 13.5 \text{ YOS} \times 2.0\% = 27\% \]

4. **Multiply Percentage by Retired Pay Base**
   - \[ 27\% \times $8,900.50 = $2,403.14 \text{ monthly retired pay} \]

- Non-Regular Retired Pay begins at age 60, although this may be reduced as low as age 50 with certain creditable active service performed after the beginning of 2008.

- Retired Pay Base is the average of the highest 36 months of basic pay a member with equivalent grade and years of service (based on PEBD) would receive on active duty.

**Notes:**
- Assumes the member serves until YOS 30 in the Retired Reserve
- Based on pay charts in place when member becomes eligible for retired pay

**Tables:**

<table>
<thead>
<tr>
<th>Year</th>
<th>O-5 Over 28</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
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</tbody>
</table>
## TSP Vesting

### Opt-In Members Serving as of December 31, 2017

- **1% Automatic**
  - **begins**: immediately
  - **vested**: 2 years beginning of 25\(^{th}\) month of service

- **Matching**
  - **begins**: immediately
  - **vested**: immediately vested upon receipt

### New Accessions Who Join on or after January 1, 2018

- **1% Automatic**
  - **begins**: 60 days
  - **vested**: 2 years beginning of 25\(^{th}\) month of service

- **Matching**
  - **begins**: 2 years
  - **vested**: 2 years beginning of 25\(^{th}\) month of service

...vested means it’s yours to keep even after you leave the service.
TSP Considerations

To maximize the advantage of government and civilian employer contributions, National Guard and Reserve members will have to be aware of IRS contribution limits.

**Contribution Limits**

BRS allows National Guard and Reserve members to save for retirement + receive government automatic and matching contributions

- 1% Automatic
- Up to 4% Match

**But...** National Guard and Reserve members with civilian retirement plans need to track their own contributions ("elective deferrals") to their 401(k), Uniformed Service TSP, and Individual Retirement Accounts (IRA)

- Elective deferrals from all sources of income are subject to a combined annual limit set by the IRS
- $18,000 for 2017

- **Civilian 401(k)**
- **Thrift Savings Plan**

**UNCLASSIFIED // PRE-DECISIONAL**

The Uniformed Services Blended Retirement System
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Lump Sum Option

**NO LUMP SUM**

Service Start → Retires → Age 60

**LUMP SUM**

Service Start → Retires → Age 60

**Non-Regular Retirement**

50% of future retired pay to age 67

**GRAY AREA**

discounted present value

Reverts to Full Pension

Reduced Pension