

This is an update to *Basic Personal Finance* Appendix A (pp122-123) on the retirement system for military compensation. As a refresher, you should review Chapter 6 (p54) on the differences between defined-benefit and defined-contribution plans and Appendix A (pp123-125) on the Thrift Savings Plan (TSP).

Uniformed Services Blended Retirement System

The Fiscal Year 2016 National Defense Authorization Act created the Blended Retirement System (BRS) that went into effect on January 1, 2018.¹ This system is intended to reduce military personnel costs and transition the services from defined-benefit to defined-contribution retirement plans.

Everyone who joins the military after January 1, 2018 is automatically enrolled in BRS. Active duty members with less than 12 years of service and reservists with less than 4,320 retirement points have the option to join BRS, but must do so before December 31, 2018. Cadets or midshipmen attending a service academy as of December 31, 2017 are grandfathered and have up to 30 days upon commissioning to opt into BRS.²

Once enrolled, service members will have one percent (1%) of base pay automatically contributed by their service into an "age-appropriate Lifecycle (L) fund." That money is not deducted from pay, but contributed in addition to pay (i.e., extra money). The payments start after 60 days of service and continue through 26 years of service. However, all money and earnings are forfeit if the service member leaves before 2 years of service.³

Free money is a good deal, but more free money is better. After two years (and up to 26 years), the service will match service member contributions up to 5%. So if you only save 1% of your pay, you get the free 1%, plus a 1% match, for a total of 3% of your basic pay stashed away in a TSP account. It's not quite a 1-for-1 match. Here's the breakdown:⁴

You put in:	Service Contribution		Total Contribution
	Automatic contribution	Matching Contribution	
0%	1%	0%	1%
1%	1%	1%	3%
2%	1%	2%	5%
3%	1%	3%	7%
4%	1%	3.5%	8.5%
5%	1%	4%	10%
More than 5%	1%	4%	Your contribution + 5%

By law service members in BRS will be automatically enrolled with a default personal contribution of 3% (total 7% with matching contribution) each calendar year, but they can opt out each year (earning only 1%).⁵ While there is no limit to the percentage saved, the service contribution is limited to 5%, and the total annual dollar limit is set by the IRS, similar to 401(k)-style retirement plans: \$18,500 for 2018.⁶

Service members can select the TSP fund (or mix of funds) for their investment. They can also specify a Roth (after-tax) or traditional (pre-tax) TSP account. The member contribution must be a whole percentage of base pay. Also, if pay is earned while serving in a Combat Zone Tax Exclusion (CZTE) area or Direct Support Area (DSA), the contributions are tax-free, plus the contribution limit is raised to \$55,000.⁷

Unlike the defined-benefit "High-3" military retirement system, which requires 20 years to get any benefits, members are vested in the BRS after 2 years of service. If a service member under BRS leaves before two years of service, all personal contributions are kept, but the automatic 1% service contributions (and their earnings) are lost.⁸ After two years, all the money in the service member's TSP account is vested. These accounts are also portable.⁹ The service member can keep them in TSP after leaving the service, or the funds can be transferred to a similar retirement account in other investments.

Part of the system includes mid-career bonus payments to encourage retention. These payments can be between 8 and 12 years of service, and the amount of the bonus depends on the retention needs of the service. The one-time bonus payment is in addition to any other career field-specific incentives or retention bonuses.¹⁰

Our Advice. Clearly, anyone entering the service and automatically enrolled in BRS should make at least a 5% personal contribution to get the maximum benefit of the matching funds. They would be starting their retirement savings with an automatic 100% return! They should strive to hit the maximum allowable dollar contribution as early in their careers as possible. Remember, the power of compounding interest means the more you save early, the higher the payoff in retirement.

Service members who entered prior to 2018 who are eligible for BRS have a more difficult decision. They can opt for the defined-benefit plan, the value of which is difficult to calculate because it's based individual longevity. If they take the BRS option, they may be eligible for a discounted portion of their retirement pay up front.¹¹ There is a calculator to help make the decision at <https://militarypay.defense.gov/Calculators/BRS/>

The simple answer: If you plan to make it to 20 years of service, stick with the pension. The defined-benefit plan is less risky and will likely pay more over time. If you do not plan to make the military a career, the BRS is the best option because you're vested after only two years.

Newer service members (and veterans groups) may lament the switch to BRS, but the system will greatly benefit those service members who leave the service without retiring. Those who do stay beyond 20 years may actually benefit from BRS over High-3 if they save aggressively and take full advantage of matching contributions. Unlike the pension system, the BRS will require service members to actively participate if they want to make the most of it.

¹ Department of Defense. "Uniformed Services Blended Retirement System." Internet article, Jul 14, 2018. <https://militarypay.defense.gov/BlendedRetirement/>

² Department of Defense, Office of Financial Readiness. "A Guide to the Uniformed Services Blended Retirement System." Dec 2017, p6. Internet article, Jul 14, 2018. <https://militarypay.defense.gov/Portals/3/Documents/BlendedRetirementDocuments/A%20Guide%20to%20the%20Uniformed%20Services%20BRS%20December%202017.pdf?ver=2017-12-18-140805-343>

³ Ibid, p.8

⁴ Ibid, p.15

⁵ Ibid, p.15

⁶ Ibid, p.23

⁷ Ibid, p.23. Service members can also make contributions from special bonus and incentive pay

⁸ Ibid, p.17

⁹ Ibid, p.17

¹⁰ Ibid, p.17

¹¹ Ibid, p.19