

# Understanding Your Future Retirement Benefits Under The Blended Retirement System

Presented by

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# BRS Implementation Plan

## Blended Retirement Plan

- **Entered Service before 1 Jan 2006**
  - Stay in current system; no option to change
  - Be prepared to counsel subordinates
- **Entered Service CY2006 after; opt-in option**
  - Opt-in window opens in CY2018
- **Enter in and after Jan 2018**
  - All-in new program

# Setting the Stage

## Know What You are Comparing

### DOD compares:

- Current Retired Pay alone against...
- BRS retired pay and TSP w/Match

### Issues:

- Current retired pay also has TSP
- Is it a DOD benefit when you have to use your own money?
- Does counting a future 401k count as a DOD benefit?
- TSP monies are not available until age 59½; not at military retirement
- The BRS results depend on you; your savings rate and your investment returns

### For apples to apples comparison:

- Compare BRS retired pay and TSP Match only (without investment returns)

# Understanding the Numbers

## Present Value

- Lump-sum value at the beginning of retirement
- An amount that will provide for retirement given a rate of return
- Assumes 7% return and 2.5% COLA

## Lifetime Value

- What you are paid over a lifetime
- Sit back and collect
- No lump sum; nothing invested; no return
- Assumes COLA 2.5%

Time



7% approximates the average return used by DOD  
2.5% COLA approximates the national historical average for retired pay

# Current Retirement Benefit

## TSP w/o a match, no bonuses – Part 1

- Max contribution in 2017, \$18,000 year/\$1500mo
- Value is **in addition** to the pension benefit

## Vested Retired Pay at 20YOS – Part 2

- 2.5% per YOS times Hi-3 Base Pay
  - 50% @ 20YOS to 75% @ 30YOS
- **20YOS E7 -- \$2170mo**
  - For 50 years, w/2.5% COLAs, Lifetime Value: \$2,589,000
    - *Present Value: \$302,125 at 20 years of service\**
- **20YOS O5 -- \$4137mo**
  - For 50 years, w/2.5% COLAs, Lifetime Value: \$4,936,000
    - *Present Value: \$576,000 at 20 years of service\**

# The BRS

## Part 1

### TSP with a match and 12YOS bonus

- Max contribution in 2017, \$18,000 year/\$1500mo
- Value is in addition to the pension benefit
- **1% automatic DOD contribution**—begins start of service
- **4% max match rate**—starts beginning of 3<sup>rd</sup> YOS
- **Match stops at 26YOS**
- **Vested in match after 2YOS**—starting in the third YOS
- **Bonus at 8-12YOS: minimum amount** equal to 2.5 times base pay AD; half AD monthly base pay for Guard-Reserves
  - Max possible up to 13 months base pay/6mos Res/Grd
  - Service commitment of 3 years

# The BRS

## Part 2

### Vested Retired Pay at 20YOS

- **2% per YOS** times Hi-3 Base Pay
  - 40% for 20YOS up to 60% for 30YOS
- **20YOS E7 -- \$1736mo**
  - For 50 years, w/ 2.5% COLAs, Lifetime Value: \$2,070,000
  - *Present Value: \$241,560 at 20 years of service\**
- **20YOS O5 -- \$3310mo**
  - For 50 years, w/2.5% COLAs, Lifetime Value: \$3,949,000
  - *Present Value: \$460,800 at 20 years of service\**



# Retirement Plan Comparison

## Current

- TSP no match
- Plus Retired Pay
  - **(2.5% X YOS) X High-3** base pay = Retired Pay
  - COLA

### Present Value

#### Retired Pay Only\*:

E7 -- \$302,125

O5 -- \$576,000

## BRS

- TSP w/match and Bonus
- Plus Retired Pay
  - **(2% X YOS) X High-3** base pay = Retired Pay
  - COLA

### Present Value

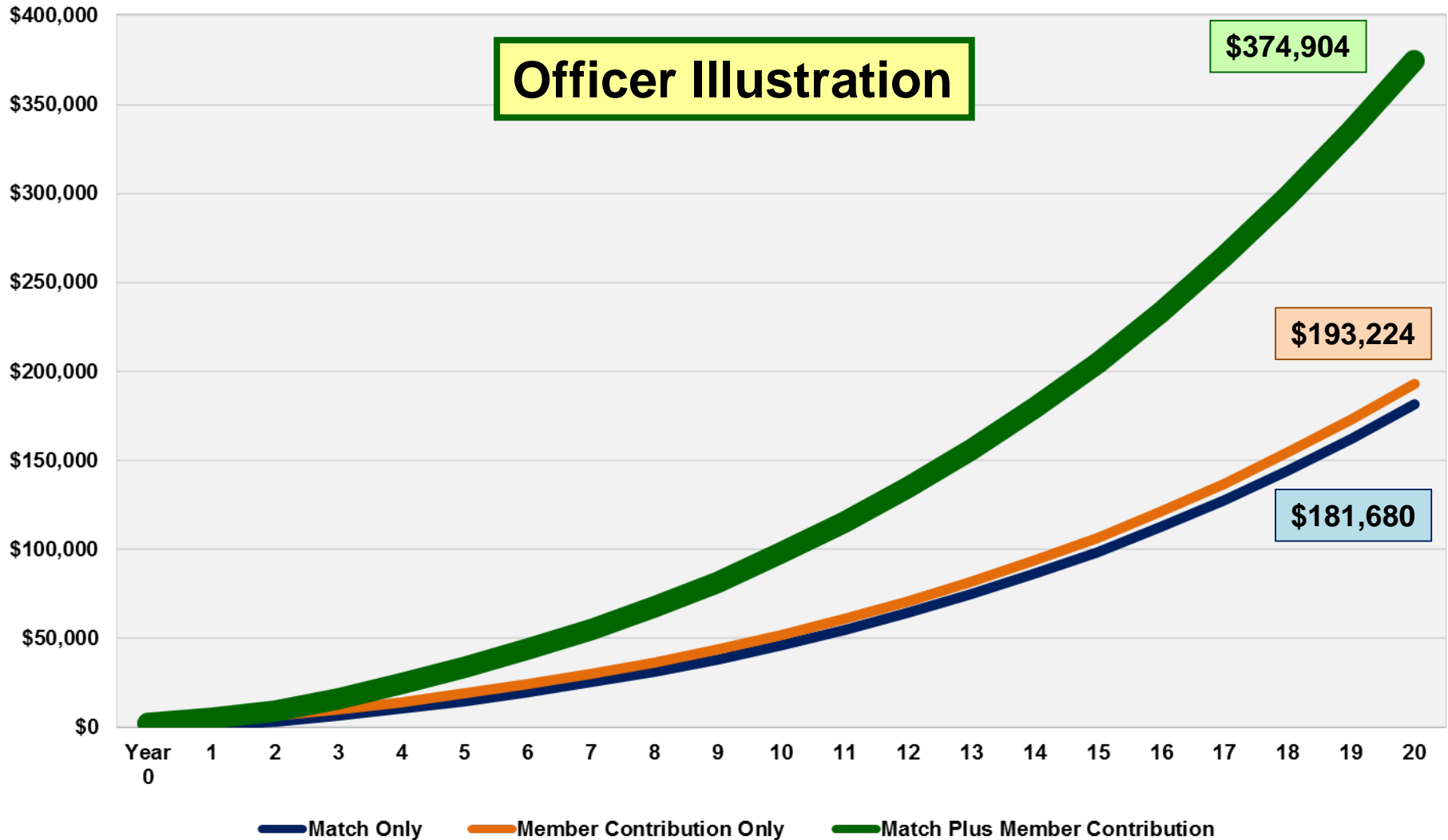
#### Retired Pay Only\*:

E7 -- \$241,560

O5 -- \$460,800

# TSP With A Match

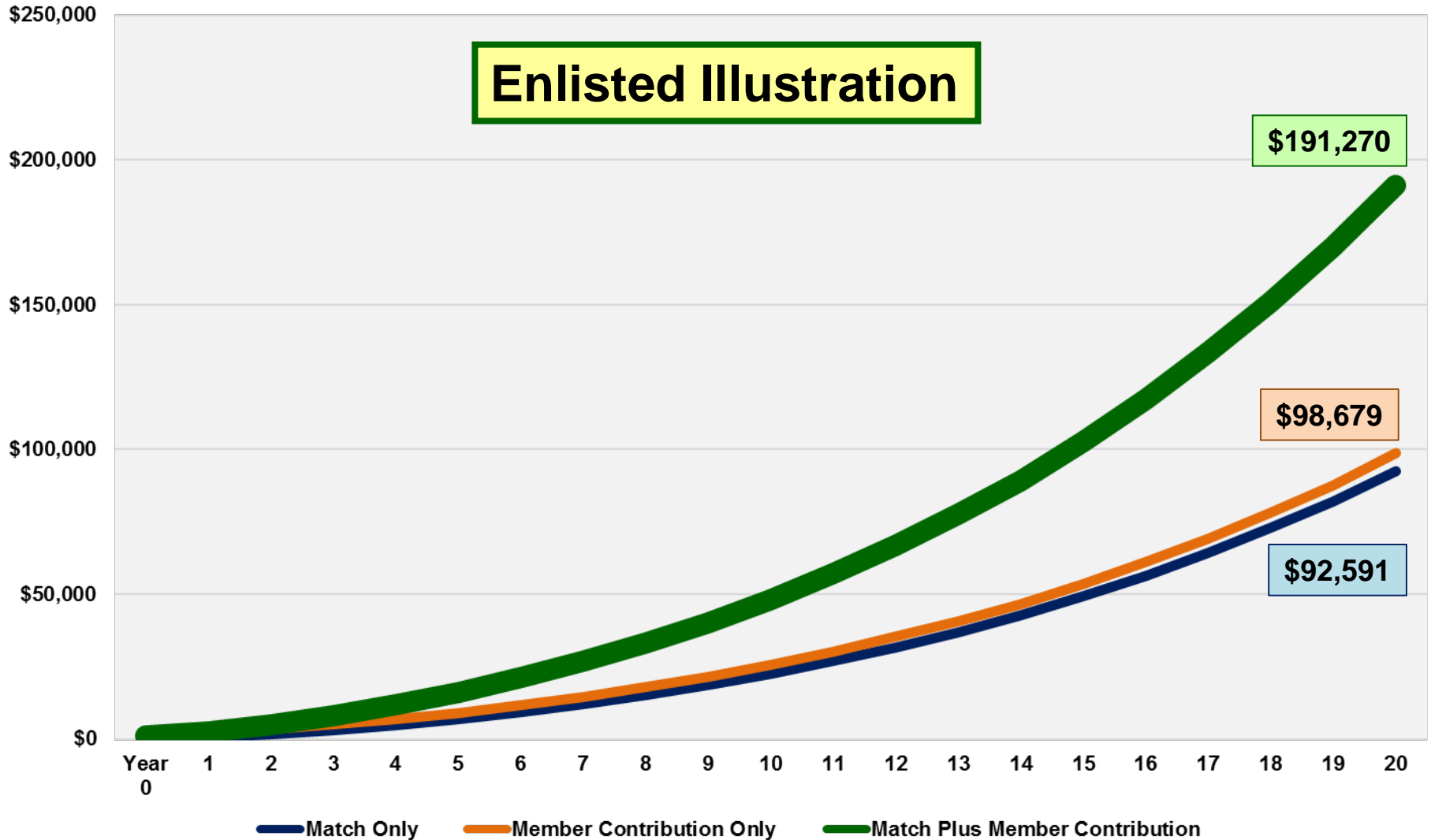
## What's The Difference?



7% avg annual rtn, 5% mbr contribution, 1/5% DOD match, normal promotion years, 2% ECI avg

# TSP With A Match

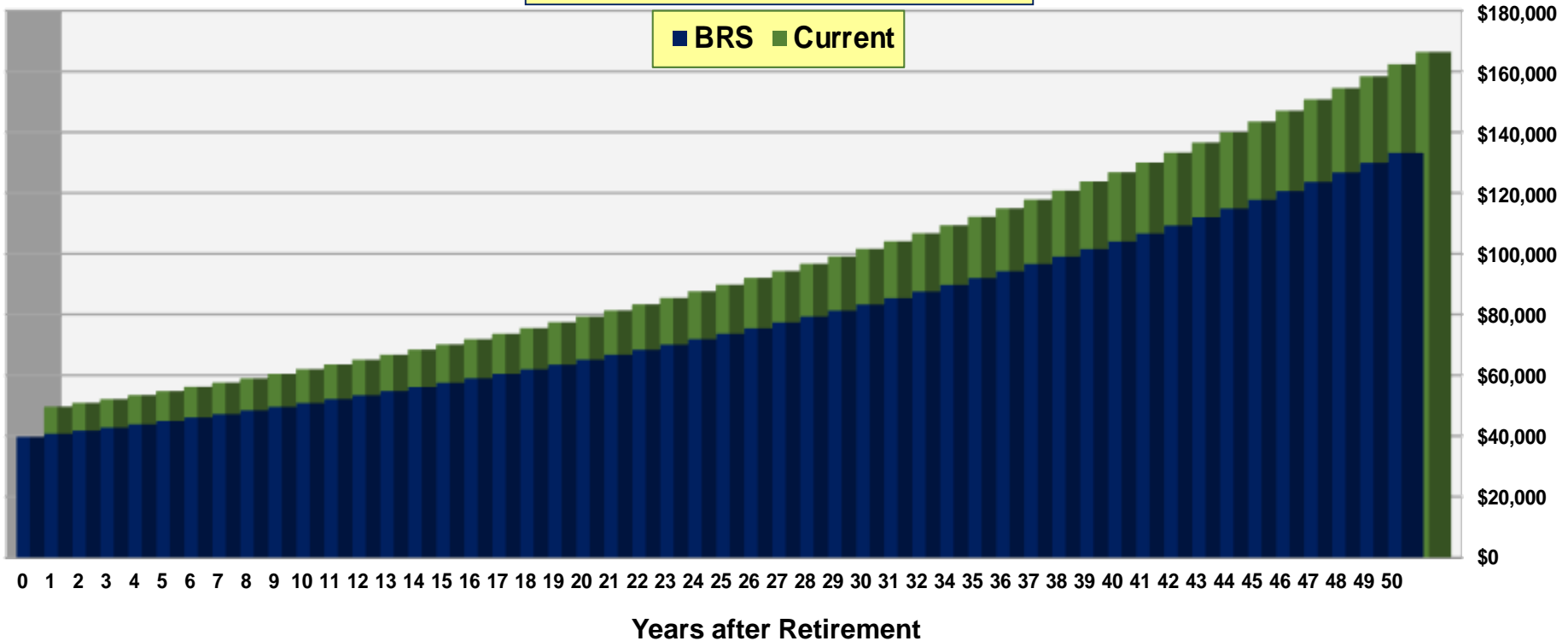
## What's The Difference?



7% avg annual rtn, 5% mbr contribution, 5% DOD match, normal promotion years, 2% ECI avg

# Retired Pay with COLA Lifetime Earnings--Annual Income

## Officer Illustration



**Lifetime earnings difference = \$987,000**

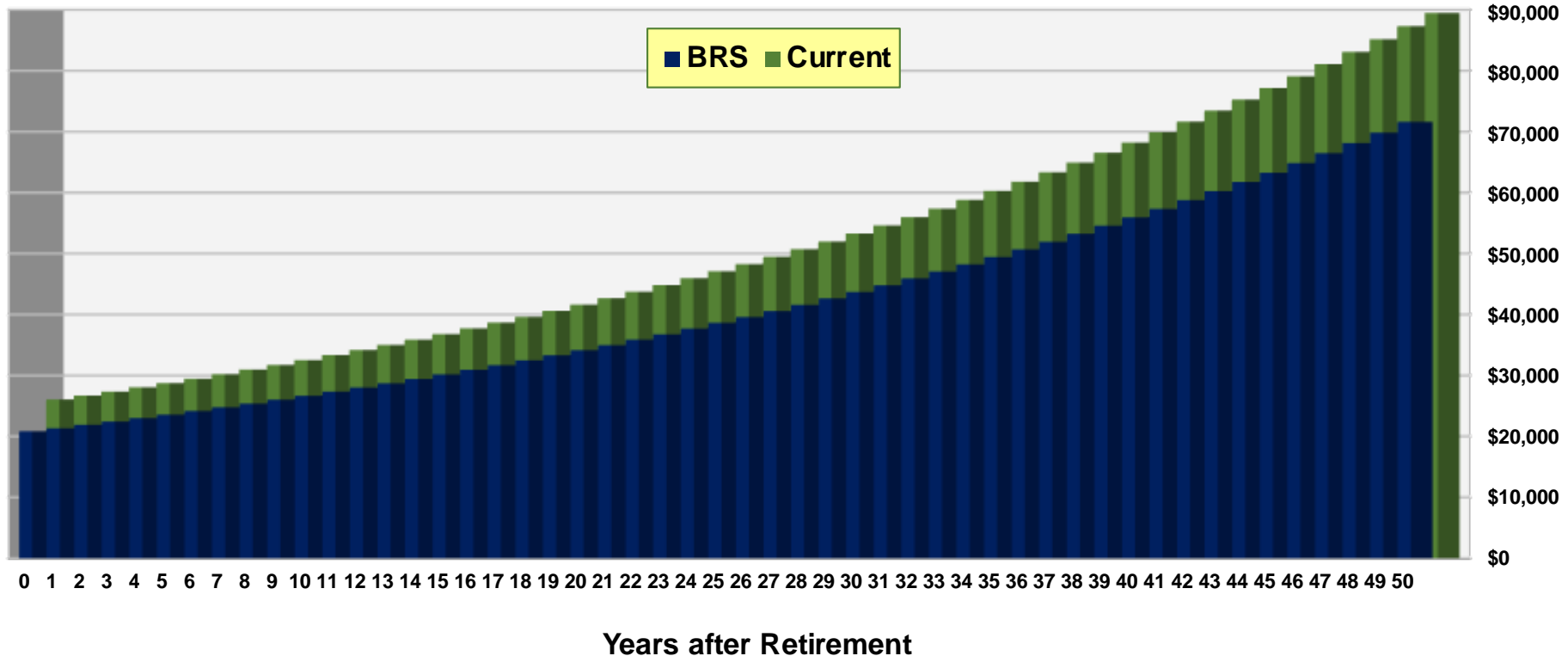
**Consider the Survivor Benefit Program Impacts Also**

Delta: \$3,949,000 vs \$4,936,000

2.5% COLA avg for retired pay

# Retired Pay with COLA Lifetime Earnings--Annual Income

## Enlisted Illustration



**Lifetime earnings difference = \$519,000**

**Consider the Survivor Benefit Program Impacts Also**

Delta: \$2,070,000 vs \$2,589,000

2.5% COLA avg for retired pay

# Making Up the Retired Pay Difference Under the BRS

**Current Program Value\*:**

**E7 -- \$302,125**

**O5 -- \$576,000**

**—**

**BRS Value\*:**

**E7 -- \$241,560**

**O5 -- \$460,800**

**=**

**Difference:**

**E7 -- \$60,565**

**O5 -- \$115,200**

# Can the New Match Help Offset the Retired Pay Reduction?

## Officer Illustration

Retired Pay PV Delta  
**\$115,200**

Difference between the formulas: 2.5% vs 2%

**NO**

**Officer match only  
\$96,600**

## Enlisted Illustration

Retired Pay PV Delta  
**\$60,565**

Difference between the formulas: 2.5% vs 2%

**NO**

**Enlisted match only  
\$50,030**

**Remember...to get the max match, you have to contribute 5% of your own pay**

**To Makeup the Difference in the TSP  
20 YOS with 7% return**

**E7 -- \$180mo**

**O5 -- \$350mo**

# It's All About Leaving with Something

So what can you leave with from the DOD after the initial service commitment?

Enlisted Match Only  
Beginning the 4<sup>th</sup> YOS,  
You could accumulate up to \$2800

Officer Match Only  
Beginning the 4<sup>th</sup> YOS,  
You could accumulate up to \$5500

**It's not like you can actually take the money...not without tax penalties**



# The Lump-Sum Retirement Option

## Choice is made at retirement

- The law allows a lump sum payment at retirement
- Get lump sum, take decreased monthly income until age 67
- You choose a 25% or 50% lump sum option—**or don't take it**
- DOD is allowed to pay the “present value” (PV) at retirement
  - PV involves a “discount” percentage determined annually by DOD; in 2017 it is 7.3%
  - The “discount rate” makes a big difference in the lump sum amount

# The Lump Sum Option

**Example of how Present Value calculation works**  
**E7, 20 YOS, \$1736mo, 2.5%COLA, 39-66yo/28yrs**

From retirement to age 67 you would collect \$843,500  
You can choose between the 25% or 50% lump sum  
So you get \$211,000 or \$422,000 right?

**Wrong!**

When discounted at 7%  
(the predicted investment return over the 28 years)

**You would get:**  
**25% - \$31,735\*    50% - \$63,470\***

**\*By the way, the lump sum is taxable...**

# Thrift Savings Plan (TSP)

## What can you do when you leave the Service?

Four options:

1. Keep in TSP
2. Roll into your future 401k plan
3. Roll into IRA
4. Pull out of TSP and use the money
  - Don't even think it unless necessary
  - Withdraw Early is costly (prior to age 59½)

# Your Future Retirement

## Your Success; It's all on You

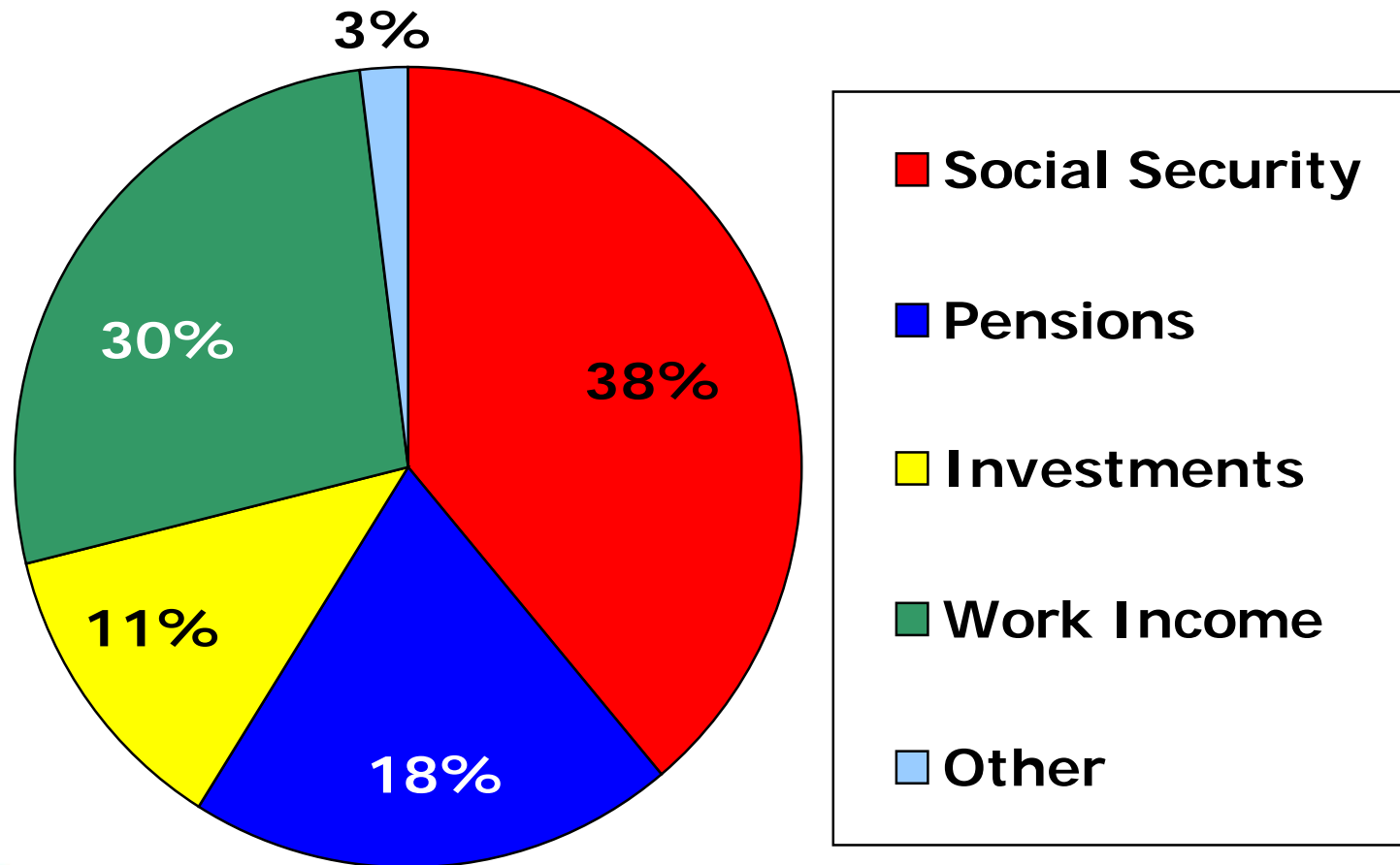


# How Much \$\$ Do You Need?

## 40 Years of Unemployment

- What will your expenses be?
  - Mortgage, cars, travel, health care, college, hobbies, debts, cost of living where you retire, continue to work...
- What will your income be?
  - Sources of income
- How you manage your portfolios will determine how much you can draw per year
  - 3 – 5% per year from portfolios
  - Draw less for conservatively managed portfolios

# Today's Seniors—Where Their Retirement Income Comes From



# Defined Contribution Plans Thrift Savings Plan (TSP) and 401ks

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## YOUR PRIMARY INVESTMENT ACCOUNT

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### Defined-Contribution Plan Contribution Limits

- \$18,000 salary deferral
- \$6,000 “catch-up” provision for age 50+

### Your TSP investment options

- C – Large company index fund
- S – Small company index fund
- I – International company index fund
- F – Bond index fund
- G – Stable value fund
- L – Allocation fund by year



# Traditional vs. Roth Accounts

## What's it all mean?

### Annual Amounts

#### Traditional TSP/401K

Gross Pay	\$60,000
Trad 401k	- <u>\$12,000</u>
Taxable income	\$48,000
Taxes 20%	- <u>\$9,600</u>
Take Home Pay	\$38,400

#### Roth TSP/401K

Gross Pay	\$60,000
Taxes 20%	- <u>\$12,000</u>
Net Pay	\$48,000
Roth 401k	- <u>\$12,000</u>
Take Home Pay	\$36,000

Take home pay \$2400 less with Roth  
However...tax-free retirement income



# IRAs in 2017

## Contributions and Deductions

<u>IRA</u>	<u>Contribution Limit##</u>	<u>MAGI Phase-out</u>
<b>Traditional</b>	\$5,500 + \$1,000 Catch-up for age 50+	<b>DEDUCTION@</b> \$62-72k Single \$99-119k** Married
<b>Roth</b>	Same	<b>PROHIBITION</b> \$118-133k Single \$186-196k Married
<b>Spousal (Traditional or Roth)</b>	Same	<b>DEDUCTION</b> (Traditional rules apply) <b>OR</b> <b>PROHIBITION</b> (Roth rules apply)

## Of "earned income."

\*\* MAGI if both taxpayers are **covered by an employer plan** OR for the spouse who has the employer plan. If only one spouse has an employer plan, phase out is \$186k-196k for the non-employer plan member.

@ There is **NO deduction phase-out** for Trad IRA if filing single, or married, and **no one has an employer plan**. See IRS Pub 590 for details!

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