



Contact: Mark Leach  
Media Relations  
817-569-2419  
[msleach@firstcommand.com](mailto:msleach@firstcommand.com)

**FOR IMMEDIATE RELEASE**  
**Oct. 24, 2017**

## **First Command Reports: Analysis of DoD retirement tool reinforces value of coaching**

*Detailed review of new calculator reveals that service members who lack a strong grounding in personal finance could mistakenly generate inflated results that they won't see in real life*

FORT WORTH, Texas – An in-depth analysis of the Defense Department's new military retirement calculator reveals that the most reliable projections will likely be produced by sophisticated users with an advanced understanding of financial planning principles – a high bar that may prompt many service members to seek professional help.

The Blended Retirement System, which goes into effect on Jan. 1, 2018, calls for a 20 percent reduction in current retirement pay in exchange for a defined contribution program of automatic and matching Thrift Savings Plan contributions, a mid-career continuation pay bonus and options to receive a portion of retirement pay as a lump sum. The program will apply to all new service members starting next year, but current military members with 12 years or less of service are eligible to opt in to the new program.

To help eligible active-duty families decide between opting in to the new program and sticking with their traditional guaranteed pension, the DoD recently introduced the Blended Retirement System Comparison Calculator. A First Command Financial Services, Inc. analysis of the calculator reveals that it is a complex tool. Users can make significant adjustments to key assumptions and settings – adjustments that in some situations could give service members an inflated sense of their potential investment returns in the new retirement system.

“The DoD's calculator is a powerful tool, but one that may be difficult for the average service member to effectively employ without the guidance of a knowledgeable financial coach,” said Scott Spiker, chairman/CEO of First Command. “During our detailed analysis, we found that effective use of the tool requires an advanced understanding of financial planning principles. Users who lack a strong grounding in personal finance could mistakenly generate inflated results that they won't see in real life. These findings reinforce the value of consulting with financial professionals on decisions involving the military's new retirement program.”

A key area of concern identified in the analysis involves long-term rates of return.

The DoD calculator employs a default rate of return of 7 percent, which is based on the [average 10-year annual return](#) generated by the C Fund in the Thrift Savings Plan (TSP) and aligns with widely reported average annual stock market returns. The C Fund is one of the options that service members may select under the new retirement program; however, the government will be automatically placing all new enrollees in one of the TSP's lifestyle funds. The average 10-year annual returns for those age-based funds range from 3.73 percent to 5.37 percent – significantly less than the 7 percent return for the C Fund.

“The C Fund has been one of the TSP's top performers, so of course it is a good choice for generating a rate of return that displays robust results in a calculator,” Spiker said. “Our concern is that the DoD is utilizing a long-term rate of return that is notably higher than what we have seen generated by the funds it will be automatically selecting for new enrollees. For service members who expect to remain invested in one of the lifestyle funds, the calculator's 7 percent default rate may overestimate long-term investment performance and give some service members an inflated sense of the eventual size of their retirement assets.”

Participants in the blended retirement system will be able to pick any of the TSP funds for their retirement investing. The calculator allows them to select a long-term rate of return that aligns with the historic returns for these funds – or a rate that's

**First Command Financial Services, parent of First Command Financial Planning, Inc. (Member SIPC)**  
1 FirstComm Plaza • Fort Worth, Texas 76109-4999 • PO Box 2387 • Fort Worth, Texas 76113  
1.800.443.2104 • Overseas, Call 1.817.731.8621 • [www.firstcommand.com](http://www.firstcommand.com)

even higher. Users can adjust the TSP rate of return [up to 40 percent](#), an aggressive projection which most members of the financial planning industry would consider to be unrealistically high.

“You shouldn’t count on a 40 percent rate of return for long-term performance,” Spiker said. “Service members who plug in rates in excess of 10 percent may get projected results that they will not likely see in real life. And that could prompt some of them to make an opt-in choice that is not in their best interest.”

The issue of long-term investment performance is a particularly important one as service members who participate in the TSP have tended to migrate to lower-return funds. The First Command Financial Behaviors Index® consistently reveals that the G Fund has been one of the most popular investment choice of middle-class military families. June 2017 survey results reveal that 43 percent of TSP investors are participating in this government securities fund, which offers protection from loss of principal but delivers returns that may be below the rate of inflation. That compares to 33 percent who invested in the C Fund.

“Steering away from stocks and towards the so-called safe investment option of the G Fund is by no means the safest choice, especially for long-term investors,” Spiker said. “While the G Fund may feel like a sanctuary from potential stock market losses in the near term, it may not grow enough over time for service member families to meet their future needs. Investor behaviors and choices over the long term will be key to success in the new military retirement system. Our financial advisors have been walking service members through rates of return and explaining how they can impact their retirement success. The goal is to help service members and their families make truly informed decisions about the Blended Retirement System.”

Last year, at a time of growing demand for professional advice on the Blended Retirement System, First Command rolled out its own planning tool designed to help current active-duty families decide between opting in to the new plan and sticking with their traditional pension. Called The Blended Retirement System Analyzer, this proprietary tool is designed for First Command Financial Advisors to show career service members how anticipated benefits under the new system compare to the current pension program. The analysis is intended to give military members unique insights into their own family finances so they can make informed decisions about their retirement planning. It also gives them an opportunity to compare and contrast results from the DoD calculator.

“The new military retirement system has made long-term financial planning a lot more complicated and less guaranteed,” Spiker said. “The Analyzer is intended to help America’s career military families weigh the value of the cash contributions and other benefits of the new plan against the certainties and guarantees of the traditional military pension. While the decision between the two plans doesn’t need to be made until 2018, our active-duty clients are already asking questions and coming to our Advisors for answers. The Blended Retirement System offers service members more risk and more complexity in planning for their retirement. That doesn’t mean it’s bad, but they have to make the right decision at every step of their career in order to be successful. Success requires service members develop and sustain good savings and investment behaviors, which can be most effectively shaped through financial coaching.”

The First Command Financial Behaviors Index® reveals that four out of five career military families say they are likely to consult a financial advisor for help with the opt-in decision.

#### **About the First Command Financial Behaviors Index®**

Compiled by Sentient Decision Science, Inc., the First Command Financial Behaviors Index® assesses trends among the American public’s financial behaviors, attitudes and intentions through a monthly survey of approximately 530 U.S. consumers aged 25 to 70 with annual household incomes of at least \$50,000. Results are reported quarterly. The margin of error is +/- 4.3 percent with a 95 percent level of confidence. <http://www.firstcommand.com/fbi/>

#### **About Sentient Decision Science, Inc.**

Sentient Decision Science was commissioned by First Command to compile the Financial Behaviors Index®. SDS is a behavioral science and consumer psychology consulting firm with special vertical expertise within the financial services industry. SDS specializes in advanced research methods and statistical analysis of behavioral and attitudinal data.

#### **About First Command**

First Command Financial Services and its subsidiaries, including First Command Financial Planning and First Command Bank, coach our Nation’s military families in their pursuit of financial security. Since 1958, First Command Financial Advisors have been shaping positive financial behaviors through face-to-face coaching with hundreds of thousands of client families.

*First Command Financial Services, Inc., is the parent of First Command Financial Planning, Inc. (Member [SIPC](#), [FINRA](#)), First Command Advisory Services, Inc., First Command Insurance Services, Inc. and First Command Bank. Financial*

#### **First Command Financial Services, parent of First Command Financial Planning, Inc. (Member SIPC)**

1 FirstComm Plaza • Fort Worth, Texas 76109-4999 • PO Box 2387 • Fort Worth, Texas 76113  
1.800.443.2104 • Overseas, Call 1.817.731.8621 • [www.firstcommand.com](http://www.firstcommand.com)

*planning services and investment products, including securities, are offered by First Command Financial Planning, Inc. , a broker-dealer. Financial planning and investment advisory services are offered by First Command Advisory Services, Inc., an investment adviser. Insurance products and services are offered by First Command Insurance Services, Inc., in all states except Montana, where as required by law, insurance products and services are offered by First Command Financial Services, Inc. (a separate Montana domestic corporation). Banking products and services are offered by First Command Bank. In certain states, as required by law, First Command Insurance Services, Inc. does business as a separate domestic corporation. Securities products are not FDIC insured, have no bank guarantee and may lose value. A financial plan, by itself, cannot assure that retirement or other financial goals will be met. First Command Financial Services, Inc. and its related entities are not affiliated with, authorized to sell or represent on behalf of or otherwise endorsed by any federal employee benefits programs referenced, by the U.S. government, or the U.S. armed forces.*