CEO COMMENTARY:
Blended Retirement System Presents Big Risks for Active-Duty Military

By Scott Spiker, Chairman/CEO of First Command Financial Services, Inc.

Our Nation's active-duty military families face real financial risks, and those risks are most serious in the area of ensuring a successful retirement.

The military's new Blended Retirement System (BRS) is transforming the way service members should think about and plan for their lifetime financial security. It places the weight of increased financial decision making and its attendant risk directly on their shoulders of the active-duty force. This is particularly true for those service members who make the military their career.

Under the current traditional retirement system, a service member reaching at least 20 years of service is eligible for a military pension that generates a monthly paycheck. These pensions have helped support lifetime retirement security for generations of career military families. Today the checks begin arriving immediately upon retirement and grow in size through annual cost of living adjustments that continue for the life of the retiree.

BRS takes that system and cuts the size of the monthly checks by 20 percent. Proponents of the program downplay this reduction in the value of the guaranteed pension by noting the addition of two new retirement benefits. They are:

- Automatic and matching contributions to the Thrift Savings Plan (TSP), a defined contribution plan for federal employees and the military offered by the federal government. The TSP is similar to 401(k) programs in the private sector. Service members will need to make contributions in order to earn the employer match. To earn the full TSP match, service members must contribute 5 percent of their pay.

- A continuation bonus to be awarded between the eighth and 12th year of service. The continuation bonus (intended to manage retention) will be 2.5 or more months of pay.

The 20 percent reduction in guaranteed income from the traditional military pension in exchange for these 401(k)-style matching funds and bonuses is unchartered territory for our military members.

For the next generation of career service members (i.e., those who join on or after Jan. 1, 2018) – making up for the 20 percent cut in retirement pay will require amassing significant income-generating assets through disciplined savings behaviors and smart investment choices. And for current service members who opt into the new system, success will depend on amassing enough wealth to justify giving up a sizeable portion of their guaranteed retired pay.

The BRS creates an entirely new investing environment for service members, one which we know from recent history has been challenging for the rest of America to navigate successfully. The story of the failure of 401(k) plans as a replacement for pensions is painfully clear. Pew Charitable Trusts found those nearing retirement age have a median account balance of a mere $76,000. And, we know those with lower incomes are at greatest risk of not saving adequately for retirement. Vanguard's "How America Saves 2014" report found the median income of those who were eligible for 401(k) plans but did not participate was $48,000 – roughly in line with basic play plus allowances for many active-duty enlisted service members.

How likely are our young service members to adequately save for their financial futures? Will they develop the necessary financial behaviors to succeed where so many other middle-class Americans have failed? The odds are not in their favor.

To improve those odds, our service members will need knowledgeable, professional help. They need trusted partners who can help them develop disciplined savings behaviors and make smart investment choices in their efforts to amass income-generating assets for retirement. Financial coaching can play a key role in helping military spouses and their families make the most of the Blended Retirement System as part of their lifelong pursuit of financial security.