

CEO COMMENTARY:

Cash buy-down of pension adds complexity, risk to retirement planning

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



One of the big changes coming with the military's new Blended Retirement System (BRS) is the option of a cash buy-down of the guaranteed military pension.

Retiring service members will be able to receive a portion of their pension in the form of a lump sum in exchange for a reduction in pension payments until reaching full retirement age (for all practical purposes, age 67). Service members will be able to take either 25 percent or 50 percent of their pension as a lump sum, and the pension will be reduced accordingly. Once the retiree reaches Full Retirement Age, the reduced pension will be returned to the original value, with cost of living increases.

The buy-down option is intended to save the government money long term, but it's a cost savings heaped on the backs of our service members. It adds increased complexity and risk to the retirement decision. At a time when retirees are attempting to turn the accumulated value of 401(k) plans into guaranteed income streams for retirement, this option could result in the exact opposite. Many military retirees are young and are preparing to enter into a second career or invest in a business and continue earning a living. But that is not the case for all.

Imagine a service member opting to take 50 percent of their retirement in cash, all with good intentions. They invest in a business that subsequently fails. They lose the money as a result of a failed marriage. They help out relatives or just spend it. This service member could find himself or herself with considerably less monthly income until age 67, which could be nearly 30 years away. In short, the buy-down option reduces the annuity benefit that has helped support lifetime retirement security for generations of career military families. It puts our service member families' long-term financial security at risk.

The cash buy-down of the pension is arguably one of the most important decisions that service members will face under BRS. How will they accurately assess the benefits and risks? Financial coaching represent a time-tested approach for helping our Nation's career military families understand and make the most of their government retirement benefits. Professional guidance will be critical to helping these families take responsibility for and successfully pursue their own paths to long-term financial security.

