CEO COMMENTARY:
New military retirement system takes page from corporate America's playbook

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

The military's new Blended Retirement System (BRS) is creating an entirely new investing environment for service members, one which we know from recent history has been challenging for many Americans to navigate successfully.

The BRS reduces guaranteed military pension income by 20 percent and introduces lump-sum bonuses and 401(k)-style contributions. This change mirrors an approach corporate America took four decades ago, when employers traded the defined benefits of pensions for the defined contributions of 401(k) plans.

Certainly it was a good move for many employers. They transferred financial risk from their balance sheets to the household finances of their employees. With BRS, the federal government is taking a page from corporate America's financial playbook. It is transferring the uncertainty of long-term financial risk (that is, the costs of future pension payments to military retirees) from the public balance sheet to the family finances of the service members who are committed to defending our nation.

This is not a promising development for our men and women in uniform. Just look what has happened to many of today's American workers. The median account balance for those nearing retirement (ages 55 to 64) is about $76,000, according to the Pew Charitable Trusts. That's terribly short of what most middle-class Americans will need to maintain their standard of living in retirement.

Employee participation is particularly constrained among lower income Americans. They are less likely to be able to afford and to participate in their 401(k). A 2011 report by the Government Accountability Office reveals that most of the people contributing as much as they are allowed tend to have incomes of $126,000 or more. Those with lower incomes are less likely to participate in a defined contribution plan. According to Vanguard's "How America Saves 2014" report, the median income of participants in 2013 was $75,000. The median income of those who were eligible but did not participate was $48,000.

That last statistic is particularly significant for our career military families. An active-duty service member at a pay grade of E-5 with four years' service earns $32,029 in basic pay in 2017, plus an additional $15,720 in allowances (with dependents) for a total earned income of $47,749 – about the same amount as the median income for non-participants cited in the Vanguard report. Our young E-5 service member example looks very much like the typical American.

Now we are repeating the history of the private sector, but with government as the cost-cutting employer. Our nation is transferring the uncertainty of long-term financial risk from the public balance sheet to the household finances of the service members who are committed to defending our nation. New service members will embark on their military careers with a smaller guaranteed retirement income stream than those who came before them. They will be compelled to make up the difference by taking on the risks of the financial markets. How likely are our young service members to adequately save for their financial futures? While they are the people most in need of participation, industry statistics tell us they are the least likely to participate. Will career service members succeed where so many other middle-class Americans have failed?

Career military families need a clear plan – their own financial playbook – to make up the 20 percent cut in pension benefit that is reality of the new retirement system. How can they hope to enjoy success when so many other Americans struggle? They must save and invest wisely. The place to start is with sound financial education and training. That's why we are recommending that service members be offered on-installation instruction by expert financial advisory firms, specifically those that offer the type of financial coaching that is supports the long-term pursuit of financial security.

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