FirstCommand FINANCIAL SERVICES

CEO COMMENTARY:
Participation in TSP key to success in military's new retirement system

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

Successful outcomes under the military's new Blended Retirement System (BRS) will depend heavily on service member contributions to their own futures.

The BRS reduces guaranteed military pension income by 20 percent and introduces lump-sum bonuses and matching contributions through the Thrift Savings Plan (TSP), the government's version of the 401(k). The new system includes a Department of Defense automatic contribution of 1 percent of basic pay, and matching contributions applied to a participant's first 3 percent of contributions dollar for dollar, and 50 cents on the dollar for the participant's next 2 percent. The automatic plus matching contributions can reach a maximum of 5 percent of the participant's basic pay.

Based on their current retirement savings behaviors, many military families are facing significant challenges. In 2001, service members became eligible to participate in the TSP. This is the same 401(k) style plan available for participation by federal civilians. The significant difference is that, though military families were given the option to contribute, there were no agency automatic or matching contributions. Without an incentive, participation rates have remained relatively low.

Today 46 percent of eligible service members participate. While there are different investment options within the TSP, the most popular option is the G Fund, a government securities fund which is protected from loss of principal but delivers returns that are below the rate of inflation. This so-called "safe" investment is by no means benign. For the majority of service members, it may not grow enough over time to meet future needs.

Service member investors will face the uncertainties of the financial markets, where money invested in stocks and other assets can rise – or fall – in value. We saw this type of risk negatively impact many retirees during the stock market downturn in 2008.

Service members also will face increased risk from so-called "safe" investment options – that is, putting their money into savings accounts or other products that protect principal values but may not grow enough over time to keep up with future increases in the cost of living. And of course they will face the risk of an unexpected financial hardship, which could induce some people to spend part – or all – of their up-front dollars on immediate needs rather than save for their long-term retirement security.

Making the most of the Thrift Savings Plan and the new Blended Retirement System will required knowledgeable, professional help. Service member families will need trusted partners who can help them develop disciplined savings behaviors and make smart investment choices as they work to amass sufficient assets for a comfortable and secure retirement. Financial coaching can play a key role in helping military spouses and their families make the most of this new military retirement program as part of their lifelong pursuit of financial security.