FirstCommand FINANCIAL SERVICES

CEO COMMENTARY:
Service Members and Spouses Face Risk and Complexity in 2018 BRS Opt In Decision

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

The new Blended Retirement System represents a major shift in military retirement planning, one that introduces more risk and more complexity for our Nation's service member families who make the military their career.

Central to that risk is a 20 percent cut to the traditional pension, which has provided guaranteed monthly retirement pay to generations of career military families. And the complexity of the program is heightened by two additional issues related to the opt-in decision facing many service member families in 2018. They are:

- **Continuation pay**. For the 2018 launch of BRS, the secretaries of the military services recently decided to lock in this key financial benefit – a mid-career bonus – at 2.5 months of basic pay. That's the lowest level allowed by law and a fraction of the maximum 13 months approved in the FY2016 National Defense Authorization Act (NDAA) by lawmakers. A detailed analysis of the financial impact of BRS reveals that career service members who opt into the new system with a continuation pay at the very low end of the original range could see future retirement pay of roughly 15 percent to 19 percent less than under the legacy system.

- **Military spouses**. Unlike service members, husbands and wives receive no government education and have no voice in decisions involving this new program. That's a troubling oversight as the BRS opt in decision in 2018 is clearly one of the most important financial choices facing service member families. It's a decision that can significantly affect the long-term financial security of both the service member and their spouse.

The Blended Retirement System (or BRS) applies to all new service members starting Jan. 1, 2018, but military members with 12 years or less of service on Dec. 31, 2017, are eligible to opt in to the new program during 2018. They have a choice between sticking with the legacy system or accepting the 20 percent cut in guaranteed retirement pay in exchange for a new defined contribution program that includes automatic and matching Thrift Savings Plan (TSP) contributions, mid-career continuation pay and a lump sum buyout option.

The 20 percent reduction in guaranteed lifetime income is a matter of serious concern. And that concern requires careful consideration of the long-term value of the new benefits.

The value of continuation pay has continued to evolve – and not to the benefit of service members. As recently as May 2017, the Department of Defense stated that the benefit was an amount equal to between 2.5 and 13 times regular monthly basic pay and payable between the completion of eight and 12 years of service in return for a commitment of a minimum of three years of service. But by the end of 2017, the services had shrunk continuation pay to the smallest amount allowed by law (2.5 months), delayed eligibility from eight years of service to 12 and bumped up the commitment to a minimum of four years.

Each of the services is now characterizing it as a Continuation Bonus, which will make the allure of spending it upon receipt even more likely. A payment equal to 2.5 months of basic pay may be a tempting incentive for someone who plans to leave the military before qualifying for a pension (typically at 20 years). They have an opportunity to walk away with money they wouldn't otherwise receive. But if that person later decides to make the military a career, they'll be stuck with a 20 percent reduction in retirement income.

Clearly the opt-in decision is a complex one. For that reason BRS regulations include mandatory education for service members in advance of the decision to opt into the new system or stick with the guaranteed income from the legacy pension.

Notably, the BRS does not include provisions for the husbands and wives of these career service members to weigh in on this decision. Spouses do not receive education on the program – or have a voice in the opt-in decision. The failure to give military spouses a seat at the BRS table is a significant omission, one that stands in sharp contrast to the long-time rules governing another important military retirement benefit: the Survivor Benefit Plan (SBP).

The SBP is an insurance program that allows military retirees to protect their spouse (or other survivors) by insuring that a portion of their retired pay continues after their death, providing a guaranteed lifetime income. The decision to enroll in this program is made prior to retirement and is irrevocable. And for married personnel, it's a joint decision. The spouse of a military retiree must consent to any protection level that is less than 100 percent. If the maximum election is made, the cost for spouse-only coverage is 6.5 percent of gross military retired pay.

Military spouses deserve to have a similar voice in the BRS opt in decision. They carry much of the weight for family financial planning. First Command research reveals that nine out of 10 spouses in middle-class military families say it is primarily their role to manage household finances, including budgeting and savings. And four out of five military spouses say it is primarily their role to manage long-term investments and retirement savings accounts.

Military spouses manage family finances during those times when the active-duty spouse is deployed for extended periods and face unique challenges in finding and maintaining meaningful employment. Frequent relocations make it difficult for them to find and keep employment. They carry the burden of knowing that they will face these responsibilities alone in the event of a combat death. And at the end of active-duty service, military spouses play a critical role in navigating the financial complexities of the family's transition to civilian life.

They know from experience that turning present day income into future wealth is a challenging undertaking. The stressful, demanding military lifestyle greatly impacts their ability to accumulate wealth. They are challenged by combat deployments. Frequent relocations make it harder to accumulate home equity, and they impact the ability of spouse to find meaningful work.

Even in the best case scenario, with career service members diligently saving their military pay and properly investing it for long-term growth, future retirement income under BRS will likely lag behind what they could receive by sticking with the legacy system. The decision by all five of the services to lock in the continuation pay at the lowest amount allowed by law serves to further depress potential monthly retirement pay – and it underscores the value of the traditional pension. For service members who have determined they will make the military their career, the guaranteed lifetime income in the legacy system remains an appealing benefit and a smart choice.

Career service members and their spouses must be equal partners in that choice. They must work together to carefully consider the broader financial impact of all aspects of BRS on their lifetime retirement pay. Financial coaching can play a key role in helping these families understand the critical issues involving the BRS opt-in decision and military retirement benefits – and navigate them successfully through diligent planning and saving. First Command research consistently reveals that career military families who work with a financial advisor are more likely to save more and feel more confident about their finances than their colleagues who do not work with an advisor.

Working with a financial coach is an ideal way for military families to make the most of their pay and benefits. And giving the husbands and wives an equal voice in retirement decisions that arise from that coaching will help to prepare the way for military families in their continuing pursuit of financial security.

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