

## White Paper

# Military Spouses Deserve a Seat at the Table for Decisions on the Blended Retirement System

First Command Financial Services, Inc.

December 2017

Financial readiness is a critically important issue in the lives of military spouses. Their unique experience is often one of shouldering the primary responsibility for household budgeting and savings, including managing the retirement planning for their families. This has become particularly true during the extensive deployment schedules endured by the service members in the past 15 years of overseas conflicts.

But that critical reality is not reflected in the education program or decision making process that has been created for service members who are eligible to opt into the new Blended Retirement System (BRS). The husbands and wives of career service members 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 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 the service member and their spouse.

The BRS represents a major shift in military retirement planning, one that introduces more risk and more complexity. That risk begins with a 20 percent cut in the traditional pension, which has provided guaranteed monthly retirement pay to generations of career military families who completed 20 years of service. The 20 percent reduction pays 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 program 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.

While the new benefits may appear appealing at first glance, a 20 percent reduction in guaranteed lifetime income is a matter of serious concern. 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.

But 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.

SBP is a well-known and highly-valued retirement benefit in the military community. First Command research has revealed that three-quarters of career military families are aware of the program and almost half describe the program as “very” or “extremely” appealing. Among active-duty personnel who say they plan to make use of military retirement benefits, 43 percent intend to enroll in SBP.

Military spouses deserve to have similar right of consent for the BRS opt in decision. They earn that right, every day. 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 must 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. Seven out of 10 spouses say that frequent relocations make it difficult 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.

The BRS is a particularly complex benefit. Service members have to make the right decisions at every step of their careers in order to be successful. Financial coaching can play a key role in helping military spouses understand the critical issues involving BRS 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 – and the husbands and wives who manage their household finances – to make the most of their pay and benefits. And giving military spouses 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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