

Understanding the

BLENDED RETIREMENT SYSTEM

Secure Your Financial Future

A GUIDEPOSTS OUTREACH PUBLICATION

Guideposts

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***Retirement is a new beginning, and
that means closing the book on one chapter
in order to begin the next.***

SID MIRAMONTES

Retirement: Your New Beginning

Introduction

The 2017 National Defense Authorization Act provides a new way to help you save for retirement. Prior to this Act, approximately 81% of active service members left the military without any retirement benefits.¹

Through a modernized retirement system called the Blended Retirement System (BRS), elements of the previous retirement system and government contributions to the Thrift Savings Plan are combined, helping provide retirement benefits for nearly 85% of military service members.

While this new opportunity helps you build retirement savings, it requires an increased responsibility to understand the retirement planning process. Retirement is an important long-term financial goal; therefore, it is important to make informed decisions.

Retirement planning can help you have enough money to enjoy a comfortable lifestyle once you've stopped working. Because all investments carry risk, it is important to learn more about the retirement planning process. Educating yourself is the best

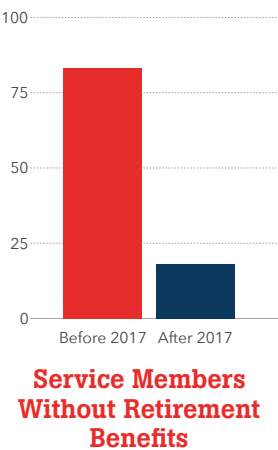
¹ DoD, National Defense Authorization Act, <https://militarypay.defense.gov/BlendedRetirement/>

first step in making an informed decision.

Now is the time to get educated about retirement planning—and commit to retirement savings. The information in this booklet will help you understand the BRS as well as help you begin securing your financial future.

In order to be best prepared for retirement, start today!

The material provided in this booklet is for information only and is not intended to provide specific investment advice to any individual for any particular purpose. For advice related to your personal situation, you should consult an investment and tax professional. The financial examples provided in this booklet are not based on the actual returns of a particular investment or portfolio of investments and are for illustration purposes only. Your actual returns will depend on your specific investments and their performance during the period of time you hold them.



Prior to 2017, 81% of active service members left the military without any retirement benefits

Overview of the Blended Retirement System (BRS)

The Blended Retirement System (BRS) combines the 20-year military retirement (defined annuity), with a defined contribution plan, known as the Thrift Savings Plan (TSP), which includes an automatic 1% Department of Defense (DoD) contribution after 60 days of service and up to 4% additional matching contributions after the completion of two years of service (see Figure 1).

The Blended Retirement System
3% from You
Service members make an automatic TSP contribution of basic pay (after 60 days). They can contribute other forms of pay, too (incentive pay, special pay, and bonus pay).
1% from DoD
DoD automatic 1% contribution (after 60 days and until service member reaches 26 years of service). Contribution is automatic and applies even if service member doesn't contribute.
Up to 4% from DoD
DoD matching contributions (after 60 days and until service member reaches 26 years of service). Service member will need to contribute 5% in order to get the maximum match of 4%.

Figure 1. Automatic and Matching Contributions

By definition, an annuity pays out a fixed stream of payments after an accumulation period. The defined annuity, or monthly retirement pay, can be paid as a fixed monthly payment or can be split as a partial lump sum payment. The automatic 1% DoD contribution and matching contributions continue through the end of the pay period during which the service member reaches 26 years of service. These contributions can help build your retirement savings.

How Does the BRS Work?²

While there are several TSP investment options, the government and matching contributions will be contributed to the Lifecycle fund nearest the service member's 62nd birthday as a default.

A Lifecycle fund uses an asset allocation formula that assumes you will retire in a certain year, and adjusts the way funds are invested to reduce risk as you near retirement.

For example, if in 2020 you invest in a Lifecycle fund with a target retirement date of 2050, the fund will be more aggressive at first, holding 80% stocks and 20% bonds. Each year, those percentages will

shift to be a bit less aggressive, to the point where they would reach 40% stocks and 60% bonds by the target retirement date of 2050.

Am I Eligible for the BRS?

All service members who entered the military on or after Jan. 1, 2018, are automatically enrolled in the BRS.

Note: All active duty service members who served for 12 years or more prior to Dec. 31, 2017, as well as service members with fewer than 12 years of total service as of Dec. 31, 2017, and Reservists with fewer than 4,320 retirement points as of Dec. 31, 2017, had the opportunity to opt into the BRS during the one-year opt-in period between Jan. 1 through Dec. 31, 2018.

How Much Money Can I Save?

In the BRS, service members are automatically enrolled at a 3% individual contribution; however, the amount can be adjusted as there is no minimum mandatory contribution amount. In order to maximize the DoD contributions, service members should contribute at least 5% (see Figure 2).

TSP contribution limits are based on IRS guidelines. Two annual limits apply to contributions: a limit on individual elective deferrals; and an overall limit on contributions to a participant's plan account.

²The Pros And Cons Of Target-Date Funds, investopedia.com/articles/retirement/07/life_cycle.asp#ixzz4m757jQSh

TSP Contribution Limits			
Service Contributions to Your Account			
You put in:	Your Service puts in:		And the total contribution is:
	Automatic 1% Contribution	Service Matching Contribution	
0%	1%	0%	1%
1%	1%	1%	3%
2%	1%	2%	5%
3%	1%	3%	7%
4%	1%	3.5%	8.5%
5%	1%	4%	10%
More than 5%	1%	4%	Your contribution +5%

Figure 2. Contribution Levels

Currently the limit on individual contributions (or elective deferrals) is \$19,500 for 2020; however, the guidelines can change annually.³ (In 2019, for example, the limit on individual contributions was only \$19,000.) While there is an annual aggregate limit, there is a provision for additional elective deferrals for individuals age 50 and over and service members who serve in a combat zone. Both of these exceptions and special treatments offer increased opportunity for savings.

Individuals age 50 and over can make additional

³ Internal Revenue Service, <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-contributions>

deferrals, also called catch-up contributions. You don't need to be "behind" in your plan contributions in order to be eligible to make these additional elective deferrals. If permitted by the plan, participants who are age 50 or over at the end of the calendar year can make these additional contributions, currently limited to \$6,500 for the year 2020. Both these annual and catch-up contributions may be increased in future years for cost-of-living adjustments.

Service members who serve in a combat zone can contribute up to \$53,000 to their traditional account. These combat zone contributions can include special incentive or bonus pay earned in a combat zone. Contributing a bonus or additional income earned in a combat zone may be a great way for a member to increase retirement savings. Contributions from tax-exempt pay, such as combat or hazardous pay, will be tax-free when withdrawn but their earnings will be taxable.

Why Should I Save Now?

It's important to start saving for retirement now. The earlier you begin saving, the longer your money can work and grow. When you put money into a retirement account, you benefit from compound interest or interest on the money you contribute. In this way, your money grows faster than it would from your contributions alone.

The power of compound interest is magnified the earlier you start. Compound interest comes into play as the interest you've earned increases the total amount of money in your account. When the total amount in your account is growing, the value of the interest on your total amount also increases, because the percent interest is being calculated on an increasingly larger amount of money. Over time, compound interest can substantially grow your retirement savings.

As noted in Figure 3, by starting early, Ben has the advantage of compound interest—even when he stops saving. Arthur didn't begin investing until age 27. By 38 he had invested \$8,000 more than Ben, but those lost years cost him dearly. Ben's portfolio is nearly double Arthur's.

Your automatic individual TSP contribution is

3%, but you can always save more. Try to save at least 10% of your income annually to your retirement plan in order to have enough income during retirement.

You may be able to make some investments that have higher risk and higher potential reward compared to a person closer to retirement age who needs to be more conservative. Additionally, matching



	 BEN INVESTS	\$ TOTAL	AGE	 ARTHUR INVESTS	\$ TOTAL	
	2,000	2,240	19	0	0	
	2,000	4,749	20	0	0	
	2,000	7,558	21	0	0	
	2,000	10,706	22	0	0	
	2,000	14,230	23	0	0	
	2,000	18,178	24	0	0	
	2,000	22,599	25	0	0	
	2,000	27,551	26	0	0	
BEN STOPS SAVING	0	30,857	27	2,000	2,240	ARTHUR STARTS LATE
	0	24,560	28	2,000	4,749	
	0	38,708	29	2,000	7,558	
	0	43,352	30	2,000	10,706	
	0	48,554	31	2,000	14,230	
	0	54,381	32	2,000	18,178	
	0	60,907	33	2,000	22,599	
	0	68,216	34	2,000	27,551	
	0	76,802	35	2,000	33,097	
	0	85,570	36	2,000	39,309	
	0	95,383	37	2,000	46,266	
	0	107,339	38	2,000	54,058	

Figure 3. The Power of Compound Interest

contributions can provide a valuable boost to your retirement savings. As such, it is recommended that you strive to save at least what the matching contribution would be (see Figure 2 on page 10).

Some people never get started with retirement saving. Year after year, they spend their time and resources on their current needs, and don't set any money aside for savings. Then one day they realize that retirement age is approaching fast and they're totally unprepared.

Don't let this happen to you! It's important to pay yourself first by regularly contributing some money, even a small amount, to your own savings from each paycheck.

When Am I Vested?

Individual contributions are immediately vested upon payment to TSP as well as subsequent earnings on those contributions when earnings accrue. (See more about “vesting” on page 31).

The government's automatic contribution of 1% is fully vested on the first day of the 25th month of service. Essentially, you forfeit those contributions and any earnings on those contributions if you do not achieve two years of service.

On the other hand, the government matching contribution is fully vested upon receipt in the member's TSP account. Your accrued earnings, on the matched contributions, are immediately vested.

How and When Do I Access My Funds?

In general, there are three potential transition periods when a service member may consider accessing contributions:

- **separation** from the Armed Forces,
- **transition** from Active Duty to Reserve/
National Guard,
- or **retirement** from Active Duty.

When you separate from the Armed Forces, there are four TSP account options that may apply:

- **keep funds** in account,
- **roll over** to an employer-sponsored retirement plan,
- **roll over** to an individual retirement plan,
- or **cash out**.

There are benefits and consequences for each of these decisions, including tax implications. One important benefit of the TSP is that you can roll over—or deposit—eligible funds back into your pre-existing TSP account. For example, if you leave federal

service and have a retirement account, or if you return to federal service, you can roll any new retirement funds into your pre-existing TSP. If you think you may return to federal government or uniformed services, you may want to maintain your TSP account.

When transitioning from Active Duty to Reserve/National Guard, you want to understand the regulations and procedures for crediting years of service and retirement points. Additionally, you may be eligible for continuation pay as an incentive to stay with the military. Continuation pay encourages service members to continue serving in the uniformed services for an additional four years.

Continuation pay is a direct cash payout, ranging from two and one-half months to 13 months of basic pay for an active duty member and ranging from one-half month to six months for reserve component members. Learn more about transitioning from Active Duty, retirement points and continuation pay eligibility at militarypay.defense.gov.

There are several things you may want to consider if you want to take advantage of this opportunity. First, you will need to understand the associated calculations with this financial benefit. Payable in a single lump sum or a series of up to four annual

payments over four consecutive years, continuation pay is subject to applicable taxes. It is important to consider the tax implications of one-time versus installment options. Continuation pay is a prime opportunity to enhance your retirement savings by making additional contributions to your TSP account. These pre-tax contributions may also help offset your taxable income and reduce your tax liability.

For more information

To learn more about your options, contact your Human Resources office.

DoD Office of Financial Readiness Social Media



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Blended Retirement System Resources

For more detailed information about the Blended Retirement System, visit <https://militarypay.defense.gov/BlendedRetirement>.



For many, retirement is a time for personal growth, which becomes the path to greater personal freedom.

ROBERT DELAMONTAGNE

9 Ways to a More Satisfying Life

These simple, time-proven tips will help you live your best, most rewarding life.

BY ROBERTA MESSNER

HEALTH. HAPPINESS. SUCCESS. It's what we all seek in life, what we've been told leads to a satisfying life. Too often, however, these can seem out of our reach. I've been there, and many days, I still don't have it all together. But I've discovered a few things along the way that might help you, too.

LIVE TO GIVE. When I was a young girl, true happiness eluded me. One day, my mother came home from a yard sale with a small, tattered book under her arm. *Try Giving Yourself Away* was written in the 1940s by David Dunn, a businessman who decides to take up the "hobby" of helping others and discovers

Photo by Joshua Earle on Unsplash

the joy of giving. Mom had read it years before but misplaced her copy. Whether a sincere compliment, a letter of recommendation he didn't have to write, or a nugget of encouragement to a total stranger, this huge-hearted man gave without remembering yet took without forgetting. "Read this and live it, Roberta," Mom urged. I did just that and the author's words transformed my life. Like Dunn, I'd taken up the hobby of helping others and the world now belonged to me.

STAY ENTHUSIASTIC. Too often, an enthusiastic spirit wanes as we go through life. We stop learning and growing, and our zest drops by the wayside. But nothing great is ever achieved without this essential component of a satisfying life. Enthusiasm is an inside job that draws others to us, filling us with a feeling of contentment and hope. It's a conscious choice that begins with us and alters everything.

Have a passionate heart and mind. Admittedly, this often means going beyond our comfort zone. But if we stay sequestered in the proven past, we never learn how incredible we really are. Be true to the most important person of all—you!

ALWAYS CHOOSE KINDNESS. Sure, passion is important but so is compassion. "Astonish a mean world with your acts of kindness," the poet Maya Angelou observed. You'll never be sorry and you'll find yourself a more satisfied person in the process.

DREAM BIG. James Dean once suggested to "dream as if you'll live forever, live as if you'll die today." Dreaming big means not letting difficulties define us—always moving toward a state of more resilience and calm endurance. Still, keep in mind, dreams ultimately don't work unless we do.

MANAGE YOUR MONEY WISELY. But, don't let it manage you! Financial gain is important, but don't miss out on joy. Focus on saving; take it seriously. But remember to invest in pursuits that engage your spirit and live your life with an open heart and mind. Truly love life.

LIVE WITH INTENTION. When we define what we want from life, based on our personal values, we unknowingly draw excellence out of the ordinary. One of the best ways of approaching them is through micro-movements—breaking each goal into manageable

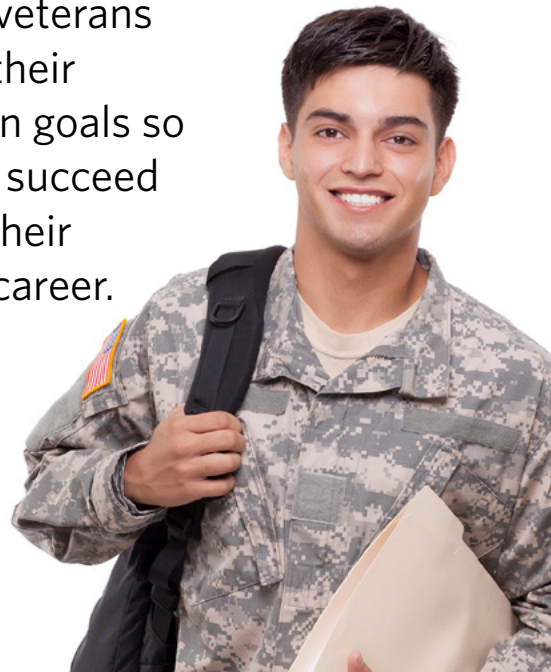
chunks. If you have a number of things you want to accomplish in the morning, compose a list the evening before of important phone numbers and other information. Then, the tasks won't seem nearly as daunting.

FIND SOMETHING THAT RESTORES YOU. For me, that critical something is beauty, such as a stroll through a beautiful home-furnishing store or an antiques shop to revive my spirit. For you, it will be different. The important thing is to recognize what it is, and seek it out to recharge your batteries.

BE GRATEFUL. Gratitude changes absolutely everything. If you begin your days with a grateful heart, that day will brim with blessings. As Melody Beattie said: "Gratitude turns what we have into enough, and more."

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Photo by goodluz on Shutterstock

***Retirement is like a long vacation.
The goal is to enjoy it the fullest, but not so
fully that you run out of money.***

JONATHAN CLEMENTS

About the Thrift Savings Plan (TSP)

The Thrift Savings Plan (TSP) is a retirement savings plan similar to 401(k) plans offered to private sector employees. All members of the uniformed services are eligible to enroll in it.

Whether you are in the BRS or not (see “Am I Eligible for the BRS?” in this booklet), participating in the TSP can significantly increase your retirement income, but starting early is important. Contributing early (via payroll deductions) gives the money in your account more time to increase in value through the compounding of earnings.

If you are a BRS member who began or rejoined service on or after January 1, 2018, your agency or service has automatically enrolled you in the TSP, and 3% of your basic pay is deducted from your paycheck every pay period and deposited in your TSP account, unless you made a contribution election to stop or change your contributions. You also get contributions from your agency or service.

If you are a BRS member who opted in during

the opt-in period in 2018, you may already have a TSP account, though you must make a contribution election in order to begin accruing funds in it.

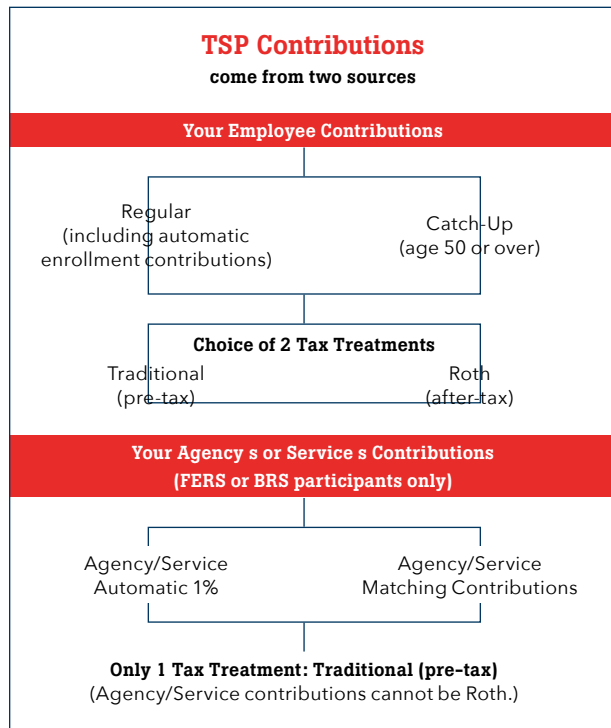


Figure 4. Automatic and Matching Contributions

Advantages of Contributing to Your TSP

The purpose of the TSP is to give you a long-term retirement savings and investment plan. Saving for your retirement through the TSP provides many advantages, including the following:

- automatic payroll deductions;
- a diversified choice of investment options, including professionally designed Lifecycle funds;
- a choice of tax treatments for your contributions: traditional, pre-tax contributions and tax-deferred investment earnings; or after-tax Roth Individual Retirement Account (IRA) contributions with tax-free earnings at retirement if you satisfy the IRS requirements;
- low administrative and investment expenses;
- agency/service contributions, if you are an employee covered by the Federal Employees Retirement System (FERS) or a member of the uniformed services covered by the Blended Retirement System (BRS);
- under certain circumstances, access to your money while you are still employed by the federal government;

- a beneficiary participant account established for your spouse in the event of your death;
- a variety of withdrawal options.

How to Establish Your TSP Account

The first contribution to the TSP—your own contribution or that of your agency or service—establishes your account.

TSP contributions are payroll deductions. You have to make a contribution election through your agency or service to:

- **start** your contributions if you were not automatically enrolled;
- **increase or decrease** your contributions if you were automatically enrolled;
- **change** the amount of your individual contributions or their tax treatment (traditional or Roth);
- or **stop** your contributions.

Maximize Your TSP Value

Here are some tips for getting the most out of your TSP:

- Start early! If you haven't started yet, start now.
- Know whether your TSP is traditional,

with taxes deferred until funds are paid out; or Roth, with taxes paid at the time of contribution and then withdrawn tax-free. You can contribute in one way or the other, or some of both.

- Aim to increase your contributions by 1% each year, up to the maximum amount.
- To maximize matching funds, contribute at least 5% of your pay.
- Check your maximum contribution limits yearly and increase your contribution if you can.
- Check out the calculator tools on tsp.gov to project how changes in how you contribute and the amount you contribute may affect your savings.

TSP Matching Contributions for BRS Participants

As a BRS participant you receive Agency/Service Automatic (1%) and Matching Contributions on your own TSP contributions. These contributions don't increase the dollar amount of your pay for income tax or Social Security purposes, nor do they come out of your pay. They're an important employment

benefit—and a critical part of your retirement savings plan—and they are deposited into your TSP account by your agency or service.

Here is an example of how TSP earnings can compound over time.

THRIFT SAVINGS PLAN EARNINGS POTENTIAL

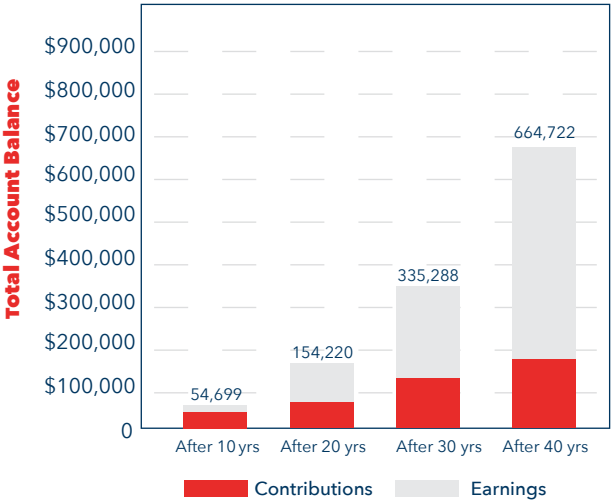


Figure 5. Earnings Potential of Your TSP Account

It’s important to understand how these contributions work and to maximize them for a comfortable retirement.

Agency/Service Automatic (1%) Contributions—equal to 1% of your basic pay—are deposited into your TSP account every pay period, beginning the first time you’re paid. These contributions are not taken out of your pay; your agency/service gives them to you. You don’t have to contribute any money to your TSP account to receive these contributions, but they are subject to “vesting.”

Being vested means you’re entitled to keep your Agency/Service Automatic (1%) Contributions (and their earnings) after you work in the federal government or uniformed services for a certain number of years. All years of service in a position eligible for the TSP count toward vesting, even if you don’t contribute to the TSP during that time.

BRS participants become vested in Service Automatic (1%) Contributions after completing two years in the uniformed services.

The date your vesting period begins is determined by your TSP Service Computation Date (TSP-SCD) or your PEBD (“pay entry basic date” for the Army; “pay entry base date” for the Navy and Marine Corps; “pay date” for the Air Force; “basic pay date” for the Department of Defense), which your agency or service reports to the TSP. Your SCD or PEBD

appears along with other vesting information on your quarterly and annual TSP participant statements. The date will never be earlier than January 1, 1984.

If you leave government service before you satisfy the vesting requirement, your Agency/Service Automatic (1%) Contributions and their earnings must be forfeited. If you transition from military service into government civil service, your TSP plan makes that transition with you.

If you die before separating from service, you are automatically considered vested in all of the money in your account.

You are always vested in your own contributions and their earnings and in your Agency/Service Matching Contributions and their earnings.

Thrift Savings Plan Social Media



/TSP4GOV



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Thrift Savings Plan Resources

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for Federal employees and members of the uniformed services.

For more detailed information about the Thrift Savings Plan, visit tsp.gov.



Military Saves Financial Fitness Checklist

CREATE HEALTHY SAVINGS HABITS

SET A GOAL



- Take the Military Saves Pledge to set short-term and long-term savings goals.
- Set up a separate savings account for emergencies at a bank or credit union.
- Pay down and manage debt.
- Save for retirement, automatically, and take informed action regarding the Blended Retirement System (BRS).

MAKE A PLAN



- Use a spending plan to spend less than you earn and save the difference.

SAVE AUTOMATICALLY



- Set up an allotment from your pay using myPay. Use your banking institution's bill pay system to automatically transfer money from your checking account to a separate savings account.

9 Tips for Planning Your Retirement⁴

1. Develop a spending plan or budget.

Make savings a priority and build it into your budget. Carefully consider trade-offs when setting your financial priorities. For example, let's say you're trying to decide between paying off your loans on a faster schedule or putting the money into savings and investments. There are no right or wrong answers; but remember, many people carry at least some debt for most of their lives. If you continue to put off saving until all your debts are paid, you may never start saving the money you need to retire.

2. Don't touch your savings.

Try not to borrow or withdraw from your retirement account. You'll lose principal and interest, and you may lose tax benefits. Consistent contributions will help you be more prepared in the future. If you change jobs, you may want to consider rolling over your savings directly into an IRA or your new employer's retirement plan. Start now, set goals and

stick to them. Make retirement savings a high priority. Devise a plan, stick to it and set goals for yourself. Remember, it's never too early or too late to start saving. So start now—whatever your age!

3. Find ways to increase your individual contribution.

It can be easy and painless to save when the money is out of sight, out of mind. Consider making automatic contribution increases.

4. Let the military help you.

Missed opportunity can have a major impact on the amount of retirement savings you will have. Remember, the dollars you contribute to your TSP are tax-deferred. This means the money is not taxed at the time you contribute it. With each contribution you make, some of the money you would have otherwise paid in taxes will be added to your retirement savings. (And up to 4% is matched.)

5. Learn more about your military benefits.

Study the specifics of the Blended Retirement System. If you have a question about your plan, ask individuals in Human Resources or a financial counselor like those found at militaryonesource.mil.

⁴Top 10 Ways to Prepare for Retirement, U.S. Department of Labor.

Be proactive about gaining as much investing knowledge as you can from the internet, books, magazines and other sources.

6. Make saving a habit.

Try to talk with a retirement plan expert if you can. In addition to your service-sponsored plan, you may be eligible to open your own personal retirement account, for example a Roth IRA. With a Roth IRA, your contributions aren't tax-deferred, but your withdrawals at retirement will be tax-free.

7. Develop a retirement strategy—because you may spend quite a few years in retirement.

Retirement is expensive. Experts estimate you'll need about 70% of your annual pre-retirement income to maintain your standard of living when you stop working.

How you save can be as important as how much you save. Inflation and the type of investments you make play important roles in how much you'll have saved at retirement. Know how your retirement savings are invested. Financial knowledge—and hopefully, an early start to saving for retirement—go hand in hand with financial security.

Consider diversifying your portfolio of investments between more conservative (lower risk, lower potential return) and more aggressive (higher risk, higher potential return) based on your expected time horizon until retirement. Over the coming years, whether you manage your investments on your own or work with an investment professional, it's important to be well-informed. When it comes to creating a retirement strategy, there's no such thing as “one size fits all.” Everyone's goals, needs and situation are different.

8. Take action now to plan your future so you can achieve your retirement goals.

Start saving now and give your money time to grow.

9. Review your plan and benefits periodically.

Your situation may change over time.

Remember: Investing always involves risk and there are no guarantees. Some investments carry more risk and more potential reward than others. Knowing this fact, you should decide how much risk you are comfortable taking—your “risk tolerance”—when choosing investments.

More Retirement Resources

Things to Remember

- The new Blended Retirement System (BRS) is effective January 1, 2018.
- Members with fewer than 12 years of service or 4,320 points, as of December 31, 2017, had the chance to opt in to the BRS during 2018.
- Make an informed decision that is best for you and your family.
- Learn more about investments and retirement planning.

Helpful Links

Use the following links to learn more about the Blended Retirement System and taking control of your money:

- **Hands on Banking® program:** handsonbanking.org/military or handsonbanking.org/articles/topic/life-events/retirement
- **National Foundation for Credit Counseling:** debtrelease.nfcc.org/military
- **DoD BRS resource website:** militarypay.defense.gov/BlendedRetirement
- **Military OneSource:** militaryonesource.mil
- **Information on TSP:** tsp.gov/index.html
- **FINRA Educational Foundation:** saveandinvest.org
- **Information on money management and savings:** militarysaves.org



Are you
a veteran
looking
to build
your next
career?

Our volunteer mentors are ready to assist

ACP's nationwide Mentoring Program connects veterans with professionals from some of America's top corporations and select universities. Veterans are mentored on topics ranging from résumé building and job market knowledge to networking and leadership. All mentors are employees of one of ACP's Participating Institutions.

The Mentoring Program is not a formal job-placement program, but a tool for networking and long-term career development. [Learn more at www.acp-usa.org](http://www.acp-usa.org)



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