

# The Right Steps Toward Retirement

Should you choose the blended retirement system  
or stay with the military's current plan?  
Hundreds of thousands of dollars could be on the line.

By Kimberly Lankford

## AFTER 60 DAYS IN THE MILITARY

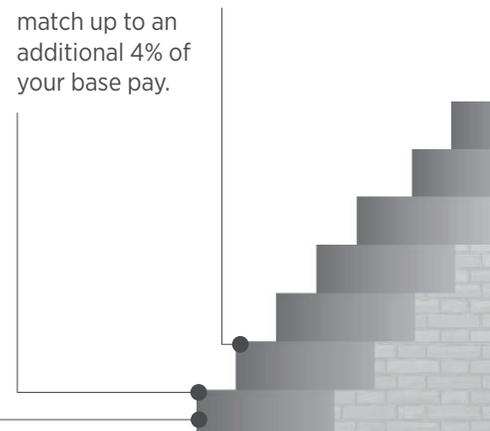
You'll get an automatic  
1% contribution of your  
base pay to the federal  
Thrift Savings Plan (TSP).

## YEAR 1

DoD will  
match up to an  
additional 4% of  
your base pay.

## YEAR 2

You'll become  
fully vested  
in the TSP.



**YEAR 30**

You'll receive a military pension of 60% of your base pay for life.

**30**  
YEARS

**YEAR 20**

You'll receive a military pension of 40% of your base pay for life.

**20**  
YEARS

**YEAR 10**

Decide whether to stay in the military or separate.

**10**  
YEAR

**YEAR 26**

The TSP match of 5% of your base pay will end.

**BETWEEN YEARS 8 AND 12**

Should you agree to perform additional service, you will become eligible for a one-time, direct cash bonus called continuation pay between eight and 12 years of service.

**BLENDED  
RETIREMENT  
SYSTEM**



### YEAR 30

You'll receive a military pension of 75% of your base pay for life.



### YEAR 20

You'll receive a military pension of 50% of your base pay for life.

## LEGACY RETIREMENT SYSTEM

### BE SURE ABOUT GOING CAREER

If you leave the military before 20 years, you won't receive lifetime retirement pay.



Many servicemembers will need to make an important — and irrevocable — decision about their financial futures this year.

If you joined the military between 2006 and 2017, you have until Dec. 31 to decide whether to switch to the new blended retirement system (BRS) or stay with the current retirement plan. Your decision could make hundreds of thousands of dollars of difference in your retirement income.

### THE OLD VERSUS THE NEW

Under the current system, servicemembers who stay in the military for 20 years can receive a generous retirement benefit — a pension starting at 50 percent of your base pay every year for life, or up to 75 percent if you remain for 30 years. But if you leave the military before 20 years, you won't receive the lifetime retirement pay, and approximately 81 percent of servicemembers don't stay that long.

The new system provides a smaller pension if you stay for 20 years but adds a Thrift Savings Plan (TSP) match servicemembers can keep after two years of service. You'll receive 40 percent of your base pay at 20 years rather than 50 percent (or 60 percent rather than 75 percent if you stay for 30 years). But you'll also get an automatic contribution equivalent to 1 percent of your base pay to the TSP after 60 days of service, and matching contributions for the next 4 percent, which can continue for up to 26 years of service.

People who joined the military before 2006 are covered under the legacy plan and don't have the option to switch, and those who enlist in 2018 or later are automatically enrolled in the new system. But people who have served for fewer than 12 years as of Dec. 31, 2017, have until the end of this year to opt into the new system. (If you are in the National Guard or Reserve and accrued fewer than 4,320 retirement points by Dec. 31, 2017, you also can opt into the new

system this year.) If you don't do anything, you'll remain in the legacy system.

### COMPARISON SHOPPING

The key factor to consider when making your decision is whether or not you expect to stay in the military for 20 years. If you know you won't be staying for 20 years, then you'll come out ahead with the BRS — you wouldn't qualify for the lifetime income, but you will still benefit from the TSP match.

If you stay for 20 years or longer, you'll receive much more income over your lifetime from the legacy system. "You start out with 20 percent less under the BRS, which becomes a significant amount of money over a lifetime, especially when you consider the cost-of-living adjustments that come with retired pay," says Lt. Col. Shane Ostrom, USAF (Ret), CFP, program director for finance and benefits information at MOAA. "Based on our calculations, the earnings difference for an officer could be over \$950,000." His example assumes average retirement pay for an O-5 retiring after 20 years and receiving lifetime income for 50 years with annual 2.5-percent cost-of-living adjustments. He estimates the difference in lifetime pay between the two systems for an E-7 retiree would be about \$500,000. (The difference is smaller if you don't live as long.)

The BRS also lets you choose to take 25 percent or 50 percent of a discounted portion of your retired pay in a lump sum at retirement (if you stay 20 years or more), which will decrease your lifetime pay even further. DoD's BRS calculator (see "Run the Numbers," at right) also can show the long-term impact of that decision.

It's more difficult to choose between the legacy and blended retirement systems if you don't know how long you're likely to stay in the military. If there's a chance you might stay for 20 years, Ostrom generally recommends remaining in the legacy system so you can receive the higher lifetime earnings. "You can still contribute to the TSP, you just don't get the match" with the legacy system,

he says. If you leave active duty but join a reserve component, you can continue to accumulate points toward the retirement system.

### GET THE MOST FROM YOUR RETIREMENT

If you choose the BRS, you'll need to contribute at least 5 percent to the TSP each year to receive the full match. "If you want to get the most success out of the blended retirement system, you need to be able to make the 5-percent contributions comfortably," says Col. Mike Barron, USA (Ret), MOAA's director of government relations for currently serving and retired affairs.

Ostrom recommends contributing even more to the TSP — under either retirement system — to benefit from the tax-advantaged, low-fee retirement savings plan. You can contribute up to \$18,500 in 2018, plus \$6,000 if you're 50 or older. If you receive tax-free income while deployed to a combat zone, you can contribute up to \$55,000 in 2018.

It's also important to keep the money growing in the TSP until retirement. "One of the biggest problems for those that are getting out is that they take their TSP and cash it out and don't put it into retirement funds," says Capt. Paul Frost, USN (Ret), program director, MOAA transition center. You usually have a 10-percent early-withdrawal penalty before age 59½ and will lose the benefits of tax-deferred growth.

If you choose to switch to the BRS, the earlier you opt in, the sooner you'll start receiving the TSP match. But make the decision very carefully because you can't change your mind. "If you're seriously considering opting in, you need to do your homework," says Barron. "Get as much information as you can, do a careful analysis, involve your spouse, and reach out to other resources to help with that decision because it's a very important decision, and it's irrevocable," he says. ■■■

*Kimberly Lankford is a freelance writer based in Lynchburg, Va. This is her first feature for Military Officer.*

### RUN THE NUMBERS

Consult DoD's Blended Retirement System comparison calculator at <https://military.pay.defense.gov/blendedretirement>. It shows the difference in lifetime earnings and how much the TSP match (and earnings) can go toward filling the gap.