

Financial Counselor/Educator Training for the Blended Retirement System of the Uniformed Services Course Transcript

Introduction

The purpose of this course is to prepare Financial Counselors/Educators (FC/Es) and other financial professionals to be able to accurately explain the Blended Retirement System and the differences with the "High-3" military retirement system, and to provide individual Service members accurate information to enable them to make informed decisions about their retirement options. The course is designed to provide FC/Es with the information they need to provide information and education to Service members and to enable them to integrate that information into the financial planning processes and procedures employed by their respective Service organizations. This is the second in a series of instructional courses being developed to inform the Uniformed Services about the new Blended Retirement System.

Financial Counselors/Educators (FC/Es) need to be able to accurately explain the Blended Retirement System (BRS), how it differs from the "High-3" military retirement system and provide individual Service members accurate information to make informed decisions about their retirement options. FC/Es include Personal Financial Managers, Command Financial Specialists, Retirement Services Officers, and Personal Financial Counselors.

Learning Objectives

- After completing this course, you will be able to:
- Describe how the Military Retirement Systems apply to the Total Force
- Explain how choices members make affect future retirement planning
- Explain how the "High-3" and BRS military retirements are calculated
- Identify how Reserve status affects Reserve Component (RC) financial planning
- Understand the components and timeline of the BRS
- Explain grandfathering, vesting, and the opt-in decision
- Identify the process for electing the BRS
- Understand and demonstrate tools, references, fact sheets, and resource guides
- Understand and demonstrate how Service member choices relate to financial literacy touch points

Lesson One: Differences Between the Blended Retirement System and the "High-3" Retirement System

Page One: Military Retirement Systems and the Total Force

The impact of changes in military retirement is considerable and drives an enduring need to ensure Service members and families are provided financial literacy training continuously and at critical decision points.

With a future retirement system based on the participation of the member, it is imperative to develop a synchronized methodology to continue building Service-member knowledge and skills to ensure they are adept at making sound financial decisions for their future. The role of the Financial

Counselor/Educator (FC/E) will be enhanced as the retirement system evolves from the separate components of the "High-3" system to the more integrated features of the BRS.

For Reserve Component (RC) members it is important to understand how their military retirement benefits will fit with their civilian retirement benefits.

Page Two: The "High-3" Military Retirement System

The "High-3" military retirement system has been based on a defined-benefit plan. Retirement is calculated based on years of service (YOS) for Active Component (AC) members and retirement points for RC members. The eligibility time period is 20 years of service for AC members or 20 "creditable" years for RC members. Additionally, an RC Service member must have at least 20 years of creditable service towards a RC retirement (or at least 15 but less than 20 for disability retirements) in order to qualify for non-regular retirement. The retired pay calculation will be accomplished using points earned. Under the "High-3" system, only about 19 percent of Service members receive retired pay.

Across the Services, most FC/Es are very familiar with the "High-3" 20-year retirement system and with the computation of retirement pay based on the "High-3;" which multiplies a member's retired basic pay (the average of the highest 36 months of pay) times the number of years served times 2.5%.

Page Three: Blended Retirement System Basics

Changes to military retirement create the new Blended Retirement System that contains both defined-benefit, or monthly retired pay, and defined-contribution components:

- The defined benefit follows the "High-3" military retirement system, but changes the multiplier from 2.5 percent to 2.0 percent per year of service
- The defined benefit remains the largest component of the BRS for members who complete at least 20 years of creditable service
- Additionally, BRS adds a defined contribution plan through Government automatic and matching contributions to Service members' TSP accounts; providing portable retirement savings for all members covered under the BRS
- Service members who opt into the BRS will receive government automatic and matching funds to their TSP in their next pay period
- Service members entering the service on or after January 1, 2018, will be covered by the BRS and will automatically be enrolled in TSP at a 3% individual contribution level
- Those members will begin receiving the Government 1% automatic contribution after their first 60 days of service and will be eligible for Government matching contributions after completing two full years of service
- Under the BRS, approximately 85 percent of the Total Force will leave the service with Government-provided portable retirement savings

Page Four: The Opt-In Decision

During 2018, Service members in the opt-in population will have a critical decision to make. Effective December 31, 2017, all Service members will be grandfathered in to the "High-3" military retirement system. AC members who have completed fewer than 12 years of service and RC members who have fewer than 4,320 retirement points as of December 31, 2017, will have the opportunity to opt into the

new, Blended Retirement System (BRS). Service members are encouraged to discuss this decision with their family and understand the decision is irrevocable.

Page Five: Role of the FC/E in Enhancing Service Members Financial Literacy

As a FC/E you will play an important role in providing Service members with the information and education they need in order to make this critical decision but you cannot advise Service members which decision they should make.

Page Six: Conducting Financial Literacy Touch Points

The introduction of the BRS coincides with mandates for increased financial literacy training linked to "touch points" throughout a Service member's career. As a FC/E, it will be your responsibility to continue to provide additional information and training to reinforce and increase Service members' financial literacy.

Many of these touch points link directly to the BRS, and are established to provide the level of skills and knowledge Service members need to make informed and effective decisions. Remember, FC/Es provide information and education, but do not advise Service members what decisions to make.

The touch points are established at critical junctures within a career and relate to certain decisions members have to make in relation to future benefits and entitlements; in turn, each of these are tied to Service members understanding their short-term and long-term financial goals.

Page Seven: Role of the FC/E in Enhancing Service Members Financial Literacy

The design of the BRS requires Service members to be active participants in decisions made today that affect their future income, taxation, or wealth accumulation.

Understanding how and when automatic and Government-matching contributions begin, when a member is eligible for TSP vesting and what it means, how Continuation Pay contributes to income, and what a lump sum payment is at retirement are crucial informed Service member decisions.

Additional mandatory touch points relate to common, repeated situations Service members experience in the course of a career and allow for periodic financial literacy education. These touch points occur during subsequent relocations and promotions while still in certain grades, for life events involving certain situations, and when departing or returning from deployment.

The primary task of the FC/E is to ensure the Service member has a clear understanding of his or her current situation with respect to income, expenses, savings, and credit, as well as their current assets, liabilities, and net worth.

Page Eight: Military Retirement Calculations

Under the "High-3" military retirement system, an AC Service member's monthly retired pay is calculated as two-point-five percent times the number of years the member served times the average of the highest 36 months of basic pay the member received. For example, a member who served 20 years would receive 50 percent of the average of the highest 36 months of basic pay.

For RC members, years of service is computed by dividing the number of accumulated retirement points by 360. RC members must have 20 years of creditable service for retirement, to do so, they must earn a minimum of 50 points per year.

Under the BRS the formula for the AC Service member changes to two percent times years of service times the average of highest 36 months of basic pay. For example, a member who served 20 years would receive 40 percent of the average of the highest 36 months of basic pay.

For RC members, years of service is still computed by dividing the number of accumulated retirement points by 360 and they must have 20 years of creditable service for retirement.

Page Nine: Reserve Status Impact on Financial Planning

An RC member must have less than 4,320 retirement points as of December 31, 2017 in order to qualify to opt-in to the BRS.

Unit Affiliated Reserve Components

Referred to by the Army as Drilling Reservist/Drilling Army National Guard; Air Force as Traditional Reservist/Drilling Air National Guard; Marine Corps as Reserves; and Navy as Drilling Reservists.

These individuals typically train on selected weekends and perform annual training. They work part-time and receive pay only when they perform duty. In a pay status and eligible for BRS opt-in.

Individual Mobilization Augmentee (IMA)

An individual reservist attending drills who receives training and is preassigned to an AC organization, a Selective Service System, or a Federal Emergency Management Agency billet that must be filled on, or shortly after, mobilization. In a pay status and eligible for BRS opt-in.

Active Guard and Reserve

Referred to by the Army and Air Force as AGR; Navy as Full Time Support; and Marine Corps as Active Reserve.

National Guard and Reserve members who are on voluntary active duty providing full-time support to National Guard, Reserve, and AC organizations for the purpose of organizing, administering, recruiting, instructing, or training the Reserve Components. Reservists in this category are in a pay status and eligible for BRS opt-in.

Individual Ready Reserve (IRR)

A manpower pool consisting of individuals who have had some training or who have served previously in the AC or in the Selected Reserve, and may have some period of their military service obligation remaining. IRR members are not in a pay status and are not eligible to opt-in until they are in a pay status.

Inactive Status

Status of Reserve members on an inactive status list of a Reserve Component or assigned to the Inactive Army National Guard. Reservists in this category are not in a pay status and are not eligible to opt-in until they are in a pay status.

Retired Reserves

Referred to by the Navy as Retired Reserve-Inactive.

Includes all members who receive retirement pay on the basis of their AC and/or RC service; those members who are otherwise eligible for retirement pay but have not reached the age of eligibility (usually age 60) and who have not elected discharge and are not voluntary members of the Ready Reserve or Standby Reserve. Members of the retired reserve are not eligible to opt into the BRS.

Page Ten: Impact of RC Retirement Type

Depending on how a Service member retires from the National Guard or Reserves, he or she may continue earning longevity toward retirement.

Transfer to the Retired Reserve

If a Service member elects "Transfer to the Retired Reserve," the value of the retirement can keep pace with military pay raises and inflation while the Service member awaits retirement pay.

If "Transfer to the Retired Reserve" is selected, the Service member risks recall to duty but the highest 36 months of basic pay will normally be the 36 months before age 60. Longevity service will continue and pay raises will continue to accrue.

For retirement pay, the pay scale used is the one that's in effect when the Service member turns 60—increases value of retired pay.

Discharge from the Guard or Reserves

If member elects "Discharge from the Guard or Reserves," there is no risk of being recalled.

Retirement pay will be based on the years of service and the pay scale in effect the year when retirement is/was elected. Service members, who elect discharge before age 60, will have their highest 36 months of basic pay based on the date of discharge. Longevity service stops and future pay raises will not be considered.

This election may have a large negative impact on a pension that may not occur until the Service member turns age 60.

Cost of Living Adjustments

Military annuities are indexed for inflation through Cost of Living Adjustments (COLA), which are tied to annual adjustments on the Consumer Price Index (CPI)—the average cost of inflation over a variety of consumer goods, products, and/or services.

Military annuities will increase over time to keep pace with inflation.

While the dollar amount of the military annuity increases with time, the purchasing power remains approximately the same as when the Service member began receiving retired pay.

Page Eleven: RC "Gray Area" Retirement

When members of the National Guard and Reserve have earned enough points and creditable years of service to qualify for military retirement benefits and have moved into the Retired Reserve, but have not yet reached the usual qualifying retirement age of 60 to collect their retired pay and full benefits, they are in the "Gray Area."

Being in the gray area has a significant effect on an RC Service member's personal financial planning since, although they have a future income source when they do reach the usual age of eligibility at 60,

they are receiving no current retirement pay which may be used for current daily costs of living or to achieve short-term financial goals.

RC "Creditable" Years

Generally, Service members need to serve 20 years to be eligible for military retirement benefits; in the National Guard or Reserves, members must achieve 20 "Creditable" years to qualify for a military retirement. To do so, they must earn a minimum of 50 points per year.

Credit for Contingency Operations

Service members who are activated in support of contingency operations for 90 days or more may qualify for reduced age eligibility, and have their age of eligibility to receive retired pay reduced by the time that they served (in 90 day increments based on creditable periods of service). For example, a member of the Ready Reserve who mobilizes in support of contingency operations for 365 days (in 90-day aggregates) may be eligible to receive military retired pay at age 59 instead of age 60. Service members must complete 20 years of creditable service. Service members should be referred to their personnel office to discuss creditable service.

Lesson Two: Understanding the Blended Retirement System

Page One: BRS Defined Contributions

Some major differences between the "High-3" retirement system and the BRS are the automatic enrollment of new members in the TSP account to which the Government will contribute along with the Service member, a significant first for the military retirement system.

As a FC/E, your job will be to help Service members understand more about the BRS and TSP, including the risks and rewards associated with investment funds, by providing financial education at a number of touch points in a career including during initial entry training for new Accessions.

Page Two: Automatic and Matching Contributions

The Government will set up a TSP account for each Service member participating in the BRS.

Service members who opt into the BRS will receive government automatic and matching funds to their TSP in their next pay period.

Service members entering the service on or after January 1, 2018, will be covered by the BRS and will automatically be enrolled in TSP at a 3% individual contribution level.

Those members will begin receiving the government 1% automatic contribution after their first 60 days of service and will be eligible for government matching contributions after completing two full years of service. Government-matching contributions will continue until the Service member separates, retires, or completes 26 years of service, whichever occurs first.

TSP Contributions

You Contribute	Govt Auto Contribution	Govt Matches	Total
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%

TSP Default Funds

Government automatic contributions (1%) and matching funds will be contributed to TSP Traditional with the Lifecycle fund nearest the member's 62nd birthday being the default fund.

Member contributions may be made to either TSP Roth or TSP Traditional, the default fund remains the Lifecycle fund nearest the member's 62nd birthday.

Page Three: Defined Benefit

Like the "High-3" retirement system, the BRS provides a defined benefit of monthly retired pay, though the formula changes.

The defined-benefit annuity is reduced when the multiplier decreases from 2.5% to 2.0% under the BRS. However, depending upon the Service member's own contribution rate to the TSP and investment returns, the addition of government automatic and matching contributions to the Service member at the completion of 12 years of service could allow Service members to achieve nearly the same or better total retirement benefit when compared to the "High-3" retirement system.

The vesting point in the defined benefit, or to receive the monthly retired pay in the BRS, is still 20 years of service, the same as for the "High-3" system. For the Reserve Component (RC), the vesting point remains 20 years of qualifying service, and the start date for receiving retired pay remains the age of eligibility (usually age 60).

Page Four: Other Defined-Benefit Details

In your role as a FC/E, you'll need to answer Service members' questions about other details of the BRS defined benefit.

Full Annuity vs. Partial Annuity with Lump Sum

A Service member may elect either full monthly retired pay or partial monthly retired pay with a 50% or 25% lump-sum option.

A lump sum is calculated as 50% or 25% of the discounted retired pay that will be due a Service member from the date of eligibility to receive retired pay to reaching full Social Security retirement age (generally age 67). For a Reserve Component Service member, that payment will be calculated from the date a member first becomes entitled to retired pay (approximately age 60), as opposed to actual date of retirement. The present value of a member's stream of annuity payments will be paid as a partial lump sum calculated using a discount rate set by the Secretary of Defense.

Personal Discount Rate

The personal discount rate is the rate at which an individual trades current for future dollars. A decision from the DoD on the discount rate that will be applied to lump sum payments is forthcoming.

Eligible Age to Receive Retired Pay

For monthly retired pay, not applicable for the Active Component (AC) and approximately 60 years of age for the Reserve Component (RC).

Disability Retired Pay

The Blended Retirement System reduces the retired pay multiplier for the disability retired pay calculation from 2.5% to 2.0%, making it consistent with the changes in the non-disability retirement calculation. For disability retirement, with a minimum 30% disability rating required, Service members may choose between their disability rating (capped at 75%) or the 2.0% multiplier multiplied by the member's years of service.

Page Five: Continuation Pay

With the introduction of the BRS, Congress also authorized Continuation Pay to be provided to Service members at the completion of 12 years of service, based on their pay entry base date (PEBD), for those who commit to an additional four years.

While Continuation Pay is not part of a Service member's retirement benefit, it is intended to maintain our existing rates of retention of experienced personnel for the all-volunteer force (AVF). DoD analysis and experience suggests that the reduction in the defined-benefit annuity may result in fewer members staying for a full career, and that providing Continuation Pay can help encourage these members to stay.

Continuation Pay may be received as a cash payout or may be contributed to the TSP.

When a Service member reaches 12 years of service based on PEBD, he or she may be eligible for a cash incentive of a minimum of 2.5 months up to a maximum of 13 months of basic pay for an AC member, and a minimum of point-five months to a maximum 6 months of basic pay (as if serving on active duty) for a member of the RC, in return for a commitment of four more years of service.

A member who qualifies for Continuation Pay may receive the payment in a single lump sum or elect a series of installments not to exceed four annual payments over four consecutive years. Continuation Pay is subject to applicable taxes.

Page Six: BRS Timeline

January 2017: Financial education on the Blended Retirement System becomes available to Service members eligible to opt-in.

December 31, 2017: Service members serving on and before this date are automatically grandfathered into the "High-3" retirement system. AC members with fewer than 12 years of service and RC members with fewer than 4,320 retirement points as of this date will be able to choose to remain in the "High-3" system or opt into the Blended Retirement System.

January 1, 2018: The effective date for the new Blended Retirement System. The opt-in period begins. Financial education for new accessions begins.

December 31, 2018: Last day to opt into the Blended Retirement System. Decision is irrevocable.

Page Seven: BRS Key Terms and Definitions

As a FC/E, you will need to be able to explain key BRS-related terms to classes and individual Service members.

Grandfathering

A provision in which an old law or regulation continues to apply to some existing individuals even after the enactment of a new law or regulation. (DoD Policy Draft Definition).

Opt-In Decision

The choice to switch from the "High-3" system into the Blended Retirement System.

Vesting

Process by which an individual accrues non-forfeitable rights over employer-provided incentives or employer contributions made to the Service member's qualified retirement account. (DoD Policy Draft Definition) For BRS, grants a Service member the right to keep automatic (1%) contributions and matching contributions (and their earnings) after the Service member has fulfilled a time-in-service requirement. Service members are vested in their automatic (1%) contributions after they have completed two years of service. A Service member's own contributions and earnings are fully vested from day one. All service counts toward vesting—not just service as a TSP participant.

Page Eight: The Opt-In Election Process

When the BRS takes effect on January 1, 2018, all members who are serving, or who have contracted to serve, as of December 31, 2017 will be grandfathered into the "High-3" retirement system.

AC members who have completed fewer than 12 years of service and RC members who have fewer than 4,320 retirement points as of December 31, 2017, will have the opportunity to opt into the BRS.

You should anticipate working with a large number of Service members who qualify to opt into the BRS. Once again, remember your role. You need to provide information and financial literacy education but not specific advice on which retirement plan to select. That decision is up to the individual Service member.

The decision to opt-in is irrevocable. It cannot be changed at a later date.

Opt-In Election Period

The earliest an election to opt-in can be made is January 1, 2018. Any eligible Service member wishing to opt-in must do so during calendar year 2018 after receiving financial education. Reentrants will have the remainder of 2018, or depending upon when they return to service, a limited period of time after 2018, to opt-in.

Page Nine: Tools, References, Fact Sheets, and Resource Guides

The BRS calculator is an important online tool that will allow FC/Es to provide Service members with a snapshot of their potential retirement savings with the BRS and TSP personal and Government

contributions. Opt-in eligible members must calculate the difference between the BRS and legacy retirement system in order to make the most educated decision on which plan to choose.

The calculator has the capability to process information for both AC and RC members. It will also model retirement outputs for both the BRS and "High-3" system, making it ideal for providing information to Service members who qualify for the opt-in decision.

FC/Es and Service members will also be able to make on-the-fly adjustments to their personal information, assumptions, and projected career progression to better enable retirement planning and plan comparison.

The BRS calculator is scheduled for release in late 2016 and plans are to include a link to the calculator in the BRS Opt-In Course. Visit the course resources section, via the link at the bottom of this window, for additional references, fact sheets, and resource guides to help you assist Service members.

Service Member Information Examples

- Your Information
 - Current age
 - When did you enter the military? (month/year)
 - Current grade? (E/O)
 - Years of service at separation/retirement? (projected)
 - Your TSP starting balance?
 - Government TSP starting balance?
- Assumptions
 - Life expectancy
 - TSP withdrawal age
 - Contribution rate (VERY IMPORTANT!)
 - TSP growth rates
- Career Progression
 - YOS
 - Age
 - Year
 - Grade

Page Ten: Linking Knowledge and Skills to Financial Literacy Touch Points

As a FC/E, you will need to link your knowledge and skills to the knowledge and skills Service members need in order to make informed and effective decisions at each of the mandatory financial literacy touch points unique to the BRS. How you incorporate these knowledge and skills into your existing processes and procedures is up to you, your colleagues, and/or your organization.

TSP Vesting

Describe retirement account vesting and its impact on ownership of funds within an account:

1. Describe the impact of matching funds on retirement and the importance of maximizing government match
2. Compare TSP portability options to other qualified retirement accounts (highlight dangers of leaving Service with TSP loans)
3. Utilize technological tools and resources to explore personalized retirement outcomes
4. Analyze a TSP account statement to determine performance and balances

5. Express how asset allocation can affect risk and reward of savings and investing
6. Describe the following types of retirement income: social security, pensions/annuities, and personal investments
7. Know the difference between employer sponsored retirement plans and individual retirement plans
 - a. Recognize IRS contribution limits
 - b. Evaluate Roth and traditional tax treatment, and impact on current and future tax liability
8. Investigate impact of inflation and cost of living on future retirement goals

Continuation Pay

Under BRS, Continuation Pay is offered to members at the completion of 12 years of service provided members agree to an additional four year commitment. Describe the cost versus benefit of choosing Continuation Pay:

1. Consider tax implications of one-time versus installment options
2. Demonstrate how to calculate Continuation Pay
3. Outline the options for allocating Continuation Pay: spending, saving, investing, gifting, or paying down debt

Transition to Retirement (Lump sum payment)

Examine cost versus benefit of choosing lump sum payment in relation to personal financial goals:

1. Describe the effect of accepting a lump sum payment on monthly annuity and impact on post-service budget
2. Investigate tax liability of opting for a lump sum payment
3. Explain how installment payments might mitigate tax liability
4. Outline the options for lump sum payments: spending, saving, investing, gifting, or paying down debt

Pre-/Post-Deployment

Deployment presents financial opportunities and challenges for Service members as they prepare to be away from home station, possibly in a combat zone, for an extended period of time and upon return home

1. Pre:
 - a. Outline options for: spending, savings, investing, gifting, or paying down debt
 - b. Identify applicable entitlements will be (including value), financial protections, and life/property risk management
 - c. List changes in personal budget
 - d. Determine applicable combat zone tax exempt (CZTE) eligibility
 - e. Recognize opportunity to reduce tax on TSP while in CZTE
 - f. Recognize option of increasing TSP contributions while in CZTE
 - g. Ensure member is aware of and understands the Savings Deposit Program (SDP)
 - h. Protection of identity and consumer protection should be included here
2. Post:
 - a. Re-evaluate tax treatment of TSP contributions
 - b. Discuss how to make practical/effective decisions on accrued assets from deployment
 - c. Evaluate goals for personal financial readiness
 - d. List changes in personal budget

- e. Ensure member is aware of how to close SDP

Combat Zone Tax Exempt (CZTE)

The amount a Service member may contribute to the TSP is generally limited by the Internal Revenue Code's elective deferral limit (\$18,000 in 2016). However, members serving 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 earned in a combat zone can be a great way for a member to increase retirement savings. Contributions from tax -exempt pay will be tax-free when withdrawn but their earnings will be taxable. Members can also contribute pay earned in a combat zone to their Roth account. Although these combat zone Roth contributions are limited by the elective deferral limit, they are made tax free, grow tax-free, and can be withdrawn tax free when the member satisfies eligibility criteria. This special treatment is only available to Service members serving in a combat zone and is definitely a great deal.

Page Eleven: Lesson Summary

You have completed the lesson on understanding the Blended Retirement System. In this lesson, you learned about the components, timeline, key terms and definitions, and other details of the BRS that will enable you to prepare Service members to make informed and effective decisions about their retirement plans.

You should now be able to:

- Understand the components and timeline of the BRS
- Explain grandfathering, vesting, and the opt-in decision
- Identify the process for electing the BRS
- Understand and demonstrate tools, references, fact sheets, and resource guides
- Understand and demonstrate how Service members' choices relate to financial literacy touch points

Page Twelve: Course Summary

Congratulations! You have completed the BRS Financial Counselor/Educator Course.