

Frequently Asked Questions Regarding the New Blended Retirement System

As of: January 6, 2015

Q 1. How is the military retirement system going to change?

A 1. -- The military retirement system will change as outlined in the current National Defense Authorization Act. Changes will not go into effect until January 2018. Service members who joined after 2006 but before January 1, 2018 will have the choice of whether to stay with the existing system or opt into the new “Blended Retirement System.” Those who joined before 2006 will remain in the current system.

Q 2. Why is this good thing for Service members?

A 2. -- Blended Retirement will benefit the entire force. Currently, approximately 81 percent of those members who join the military leave with no retirement benefit. Under the Blended Retirement System, about 85 percent of Service members will receive a retirement benefit, even if they don’t qualify for full retirement.

Q 3. How does the Thrift Savings Plan figure into the new system?

A 3. -- Blended Retirement will enroll all Service members joining after January 2018 into the Thrift Savings Plan (TSP), with automatic and matching Department of Defense (DoD) contributions. After completion of two years of service, the Service member is vested and that money belongs to them. If you leave, it goes with you.

Q 4. I’m in the new blended retirement system, how long will the DoD match my contributions?

A 4. Based on the National Defense Authorization Act passed on November 25, 2015, the DoD will contribute 1% of a Service member’s basic pay to their TSP after 60 days of entering service and will begin to match the Service member’s contributions (up to an additional 4% when a Service member contributes at least 5%) at the start of the third year of service. Both the DoD automatic 1% and the matching contributions continue through the end of the Service member’s 26th year of service.

Q 5. What is the second part of the system, continuation pay?

A 5.—The Blended Retirement System also offers a new “continuation pay” – after 12 years of service, members will receive a cash payment if they opt to stay in for 4 more years. The payment will be two and half months of basic pay for the active component member and half a month’s basic pay for the reserve component member.

Q 6. What about the third part, the annuity?

A 6. -- The third part of the Blended Retirement System is a defined benefit or a monthly annuity, which is similar to the 20-year retirement system now in place. Members who retire will still get their monthly annuity pay, but at a reduced amount. The annuity’s formula is 2

percent times years served times the “high three” or the average of the highest 36 months (three years) of basic pay received. The Blended Retirement System annuity is close to the current retirement formula, which uses 2 and a half percent as the multiplier.

Q 7. If I’m in the new blended system and retire after 20 years, will I still get an annuity?

A 7. Yes, for those who retire after at least 20 years of service, the retirement remains predominantly a defined benefit in which you will get monthly retired pay. Instead of being calculated at 2.5% times the average of your highest 36 months of basic pay (or your last month of basic pay, if you are under the older, final pay system), your monthly retired pay will be calculated with a 2% multiplier.

Q 8. What education will you be providing and when can Service members opt in?

A 8. DoD recognizes that quality financial education is key to making an informed decision as to whether a Service member should opt-into the blended or remain under the current system. The first opportunity that a Service member will have to opt-into the new system is on January 1, 2018. In anticipation of the new system, DoD has begun work on three courses: a leader overview of the blended retirement system (fielded by June 2016); a course focused on those Service members with less than 12 years of service as of December 31, 2017 who will be eligible to opt-in (fielded by January 1, 2017); and a course for our new accessions who enter the force on January 1, 2018 and beyond – who are now under the new blended system (fielded by January 1, 2018). The courses targeted at those eligible to opt-in as well as the new recruits will include calculators so that Service members can make comparisons as well as understanding the impact and need to make contributions to the TSP under the new system. The courses will also take into account unique aspects for both the active and reserve components. We intend to beta test each of these courses at least three months before delivery.

Q 9. What should Service members deciding whether to change into the new system be most aware of?

A 9. Because many of our Service members don’t make it to a 20 year retirement, this is a new benefit worthy of careful consideration. Early retirement savings and the power of compounding interest are important life-long concepts that you will want to pay attention to and learn more about. Stay tuned to the conversation – you should be as informed as possible to include having all of your questions answered, before you make your decision. DoD is committed to getting this right for you.

Q 10. Do you think that a lot of Service members will leave the military with the new system, since they’ll have money in their pocket and no incentive to stay?

A 10. We have done analysis on all of the Services and conclude the current force profiles will not change when we reduce the retirement multiplier from 2.5% to 2.0% and offer government matching into the TSP. We will however, need a continuation pay. This pay is similar to a retention bonus and targeted at the mid-career to ensure the necessary retention that maintains those force profiles. After two years of service, Service members can keep the DoD

contributions to their TSP account. Service members will have the option to leave those contributions in the TSP or to roll them into another company and/or government 401K retirement plan. The current TSP rules apply for early withdrawal before age 59 ½, in which the Service member would pay a penalty and incur the associated tax liability for taking the funds out early.

Q 11. How does this benefit the Defense Department?

A 11. This system allows the member to benefit from the power of compounding interest through the government contributions to the TSP. Many more of our Service members will be started earlier than before in their long-term retirement savings. From a readiness point of view, the Department will have a 401k like component to our retirement system when people join our ranks in critical cyber and medical specialties.

Q 12. What reaction have you received from current Service members on the new plan?

A 12. Many Service members want to hear more details about how the new retirement system will work and how it impacts them and their families. That's why increased financial education and training will be essential to help Service members make wise financial decisions and we in the Department are committed to getting this right. We expect that the new courses that will include calculators for comparison to be available to our members by January 2017 and that training will occur throughout that year.