

THE WALL STREET JOURNAL.

THE MILITARY HOPES TO SPUR SAVINGS WITH A NEW RETIREMENT PLAN

The government will contribute to retirement accounts, and participation will be mandatory for new recruits.



By: Cheryl Winokur Munk - October 8, 2017

Saving for retirement is hard for most people. The government is trying to make it easier for members of the U.S. military.

A new military retirement system that takes effect Jan. 1 will cover all new recruits and will be available for nearly two million current active military personnel and reservists. The hope is that it encourages military members, especially new recruits, to save for retirement early on. And for the first time, the government will give them money to help them do that.

The new system is the first major redo since World War II. Like the current system, it has a pension element and also allows service members to participate in the government's Thrift Savings Plan, akin to a 401(k) plan.

What's different is that the pension element has been reduced and the TSP part enhanced: The government will contribute an amount equal to 1% of participants' basic pay to their retirement accounts—and it will add up to 4% of pay in matching contributions. Government contributions vest after two years of service for new recruits, and immediately for current members provided they meet length-of-service requirements.

The new system also aims to prevent saving from becoming an afterthought or being put off indefinitely. All new recruits—about 150,000 a year in recent years—will be automatically enrolled in the new system. Current active military members and reservists will still be covered under the existing retirement plan but can switch into the new one at any time next year if they meet certain criteria such as length of service. Retired veterans aren't eligible for the new plan.

For new recruits, 3% of their pay will automatically go into their TSP accounts, in addition to the 1% automatically contributed by the government, starting after 60 days of service, and matching funds from the govern-

ment starting after two years of service. If a service member changes the automatic contribution to 0%, he or she will be re-enrolled the following year at 3%. If he or she changes the contribution to some other amount, say 1% or 5%, it stays at that level.

Marching orders

"It's critical because of the time value of money and the importance of saving early in life and developing those habits," says retired Brig. Gen. Michael Meese, chief operating officer of the American Armed Forces Mutual Aid Association, which provides life insurance, financial and survivor services to military members and their families.

While service members have the option to participate in the Thrift Savings Plan in the current retirement program, many don't, Gen. Meese says. Experts say the low participation is a function of the plan being optional and not heavily promoted, as well as the lack of an automatic contribution from the government or matching contributions.

"When I was there, nobody ever once talked about the Thrift Savings Plan," says Army veteran Galen Bargerstock, who was stationed in Bamberg, Germany, in 2002-05. He is now a financial adviser who helps federal and state employees understand and optimize their federal and state benefits and retirement plans.

Mr. Bargerstock says mandatory TSP for new recruits is an improvement because even those who don't stay in the military long enough to qualify for a pension will have some funds set aside for retirement, especially since the government contributions vest quickly. "I think it's absolutely fantastic what they're doing," he says.

The pension provisions in the new retirement plan are less generous than those in the existing program.

Today, a service member's monthly pension is 2.5% of the average of his or her 36 highest-paid months, times the number of years of service. So, for instance, veterans with 20 years receive monthly pensions equaling

50% of their highest average salary. In the new system, the factor is reduced to 2% from 2.5% for each year of service, so 20-year veterans will now receive only 40% of their highest average salary upon retirement.

In both plans, military personnel who don't complete 20 years of service receive no pension. That's why the new mandatory TSP for new recruits and the government contributions to those accounts are important, ensuring that the many service members who don't make the military a long-term career get some retirement benefit for their service.

To switch or not?

For those now covered under the existing retirement plan, the decision on whether to switch to the new plan can be complicated.

Hans E. Scheil, a certified financial planner and chief executive of Cardinal Retirement Planning Inc., based in Cary, N.C., says anyone thinking about opting in to the new plan should consider, among other things, whether they plan to stay in the military long enough to qualify for a pension, and how disciplined they are at putting their own savings into a retirement account, which will determine whether they can maximize the benefit of the government's contributions in the new plan. "It's a very personal decision," he says.

Asa Leveaux, a former National Guardsman who is a captain in the Army Reserve, is sticking with his old plan because he's only five years away from being fully vested for a pension, which will pay him more than it would under the new plan.

"If this had been an option 10 years ago, it wouldn't have been a second thought," says Mr. Leveaux, an entrepreneur in Oklahoma City. "It's so much better because of the matching provisions."

The government is providing various resources to help service members better understand their options. Members of the military can also go online to military-pay.defense.gov/BlendedRetirement to learn more about the new program.



Galen Bargerstock, president of Government & Civil Employee Services, LLC (GCES), is concentrated on navigating federal and state employees through financial and retirement planning. Galen holds a Pennsylvania Life, Health and Annuity License, as well as Series 6 and 63 licenses.

To contact Galen, call 800-985-3272 or visit gces.us.

Securities offered and sold through CoreCap Investments, Inc., a registered broker/dealer and member FINRA/SIPC. Government & Civil Employee Services, LLC (GCES) and CoreCap are separate and unaffiliated entities.