Slide 1 The Blended Retirement System

Blended Retirement System
Guide to Military Retirement

With the title page of the presentation showing, introduce yourself and your organization.

Explain that today's discussion will highlight the key features of the DoD's new Blended Retirement System (BRS). Say that you recognize that being part of the system may not seem very important right now. But assure participants that taking advantage of the benefits the BRS offers is one of the smartest things they can do.

Encourage the participants to ask questions if any of the material is unclear or if they would like more detail about a particular topic. Say that you'd like your time together to be a conversation, not a lecture.

Slide 2 **What We'll Discuss**

What We'll Discuss
• Why it's critical to save for retirement • How the Blended Retirement System (BRS) works • Why participating in the BRS benefits you

OBJECTIVE: Provide an overview of the topics that will be covered in the presentation.

Bullet 1

Investing for retirement has a very specific goal, which is to provide long-term financial security for you, for your family if you're married, and for other people who depend on you. Being able to pay your bills and live as you'd like after you retire depends on having savings you accumulate while you're working — in your case as a member of the armed forces.

Bullet 2

The BRS is designed to make sure all servicemembers have a source of retirement income, whether or not they make the military their career.

The system has two parts. One part is a pension, which is income you receive from the DoD if you serve 20 or more years before retiring.

The other part is a retirement savings plan. An account in your name is opened in government's Thrift Savings Plan (TSP). You can contribute some of your earnings to your account every pay period.

Bullet 3

The major benefit of participating in the BRS is that you can build up savings to use in the future. To encourage you to participate, the DoD contributes to your TSP account too. Those DoD contributions are on top of what you earn. You can think of it as a bonus for doing the right thing.

As we go along, please feel free to ask any questions you have. The person sitting next to you will be happy you did, so that he or she doesn't have to. And so will I.

Slide 3 **The Retirement Marathon**

> **The Retirement Marathon**
>
> - Goal: Living a financially secure retirement
> - Winning strategies
>   - Participate in tax-deferred savings plans
>   - Start early
>   - Make regular contributions
> - Keep on track despite other financial commitments

OBJECTIVE: Introduce the idea that meeting your retirement savings goals is a life-long challenge that requires a determined effort.

Bullet 1

Saving is hard. There are always immediate needs that put demands on your cash. So saving money you won't use for 30 or 40 years — or, for some of you, longer than that — may not seem to make much sense. But there's probably no more important goal than being able to live a financially secure life in retirement. And the only way to have the money you'll need *then* is to start saving *now*.

Bullet 2

Saving for retirement is a lot like running a marathon. Both are long-distance efforts. Both require stamina, and both provide their own rewards — the satisfaction that comes with accomplishing something you set out to do.

There are strategies for winning the retirement marathon — as there are for its 26-mile counterpart.

- **Take the fullest possible advantage of tax-deferred savings plans** — especially the Thrift Savings Plan (TSP) account that is opened in your name. A tax-deferred account lets you postpone taxes on earnings in the account, and, in some cases, on the amounts you contribute to it. The contributions the DoD makes to your account are tax deferred as well.

NOTE: The Thrift Savings Plan (TSP) is the federal government's tax-deferred retirement plan. All federal workers, including members of the military, are entitled to have accounts in the plan. Most federal agencies — including the DoD — contribute automatically to every employee's account whether or not he or she contributes and also match contributions that employees do make.

- **Start saving early**. The time to begin saving for retirement is as soon as possible after you join the military beginning at your first pay period. The longer the money in your account has the opportunity to grow, the larger the account balance can potentially be when you retire.

- **Make regular contributions.** The most reliable way to build your savings is to add money to it on a regular schedule — like every pay period. A convenient feature of the BRS is that the contributions you authorize are deducted automatically from your base pay. You don't have to worry about remembering to contribute. And you don't run the risk of spending the money before you get around to adding it to your account.

ASK: Is everybody clear about what tax-deferred means? Who would like to explain it in your own words? *[The key point is that taxes are postponed until you withdraw from the account, usually after you retire. Tax-deferral allows the account to grow more quickly because nothing is being taken out to pay taxes.]*

Bullet 3

There is a major difference between a conventional marathon and a retirement marathon. In the race to accumulate retirement savings you're apt to encounter financial responsibilities that may be harder to deal with than physical fatigue. For example, you may have household bills, car problems, or other personal expenses that may make it hard to go on contributing.

But if you stick with your plan and stay focused on your goal, you should be able to get your retirement savings back on track.

Slide 4 **Power of Compounding**

Power of Compounding
• Compounding's snowball effect – Earnings added to account value to create larger balance – Future earnings figured on larger balance • Keys to success: start early and make regular cash infusions

OBJECTIVE: Explain what the phrase the "power of compounding" means and how it helps you build your retirement savings.

Bullet 1

ASK: Why do you think compounding is described as a snowball effect? *[Make the point that if you start with a very small snowball, and roll it slowly across a snowy expanse, you end up with a very large snowball without having to exert any real effort. The same is true when savings compound. That's because your original contribution produces earnings and those earnings are added to the contribution to create a larger base on which the next round of earnings will be paid.]*

- In a tax-deferred account, any earnings on the account value are reinvested, or added to the existing account value, to create a larger base. In a simple example, suppose your account is worth $1,000 at the start of the year and the account is earning 5% annually. When earnings of $50 are added to the balance, your new balance is $1,050.

- The next round of earnings is figured on the new, larger base of $1,050. Using the same 5% rate, earnings of $52.50 would be added to the base, so the new balance would be $1,102.

- Over an extended period of earning at the same average annual rate, your balance can steadily grow to a substantial amount.

***WARNING*:** Earnings are not guaranteed, and the return can be negative in some years. So you can't assume that the balance in a tax-deferred account will be larger every year.

Bullet 2

The keys to success in a retirement savings account — or any savings account for that matter — are to start saving early and add regular cash infusions. The longer an account value has to grow, the greater it's potential size. And the more you add on a regular basis, the more you help the process along.

Just think of it as your money working for you instead of you having to work for your money.

ASK: Are there any questions about how compounding works or why it's important to start early?

Slide 5 **Blended Retirement System**

Blended Retirement System
• Combines tax-deferred savings with potential for pension after 20 years • Provides automatic and matching DoD contributions • Offers range of investment options

OBJECTIVE: Introduce the details of the Blended Retirement System (BRS), that launched on January 1, 2018.

Let's discuss some of the essential features of the Blended Retirement System we talked about a few minutes ago in more detail.

Bullet 1

To make the military retirement system more equitable, the BRS combines an opportunity to build up tax-deferred retirement savings with the potential for a lifetime pension for men and women who spend at least 20 years in the military. With the BRS, the vast majority of those who join the military — about 85% — will have some retirement savings when they leave the service, regardless of how long they serve.

Bullet 2

The other important feature of the BRS is the DoD's automatic contribution of 1% of base pay to the TSP account of everyone who is part of the BRS. Plus, the DoD will match the contributions you make, up to 5% of your base pay.

Bullet 3

You might be wondering where your contributions go. The answer is they go directly into your TSP account — the one that was opened automatically in your name when you joined the military. As soon as they get to the account, they're invested so that they can grow in value. There are a number of different investment options that we'll talk about in just a few minutes.

Slide 6 Getting Started in the BRS

Getting Started in the BRS • Automatically enrolled in the BRS when you join the military • Can begin contributing immediately • DoD begins automatic contributions on your 61st day of service • Eligible for matching contributions after 2 years of service

Objective: Review the details of participating in the BRS.

Let's take a closer look at participating in the BRS.

Bullet 1

The first step in participating in the BRS is totally stress free. You don't have to do anything. When you join the military, the DoD opens an account in your name. That means the account belongs to you, just the way a checking or savings account you open at the credit union or bank belongs to you.

Bullet 2

You don't have to do anything to get started on your contributions either. The first time you're paid, the DoD deducts 3% of your base pay and deposits the money in your account. That will continue to happen every pay period.

NOTE: You have the right to opt out of contributing. That decision to opt out must be made on a year-by-year basis.

Bullet 3

After you've been in the military 61 days, the DoD starts contributing 1% of your base pay to your account. The contribution will continue each pay period as long as you stay in the armed forces. And you're eligible for it whether or not you contribute yourself.

Bullet 4

After you complete 2 years of service, you're eligible for DoD matching contributions. Each pay period you contribute, you get the matching contribution that's linked to the amount you save.

Let’s take a detailed look at how matching works.

NOTE: Matching contributions end after 26 years.

Slide 7 **How Matching Works**

How Matching Works • The more you contribute, the more you get from DoD matches, so the higher your total **[refer to table on slide]**

OBJECTIVE: Clarify how matching works and establish why everyone should take this opportunity to build retirement savings.

Let's take a closer look at how matching works in the BRS.

Even if you contribute nothing to your TSP account, the DoD will make an automatic contribution of 1% of your base pay every pay period.

If you contribute 1%, the DoD matches your 1% contribution with an additional 1%. That's in addition to the 1% automatic contribution. This means 3% of your base pay will go into your account every pay period.

If you contribute 2%, the DoD will add a combined 3% for a total of 5%.

If you contribute 3%, the DoD will add 4% for a total of 7%.

In other words, the DoD matches 100% of your contribution, through 3% of base pay.

But it doesn't stop there. There's a 50% match if you contribute 4% of base pay, bringing the total contribution to 8.5% and an additional 50% match if you contribute 5%, for a total of 10%.

ASK: What impact do the automatic and matching contributions have on your account balance? *[The answer is that the account has the potential to grow much faster because of the increased amount being contributed each pay period.]*

NOTE: The chart stops at a contribution of 5% because the DoD caps its match at 5% of your base pay. Most retirement savings plans have a similar cap. But you can contribute 10% or even more of your base pay plus some or all of any bonus or special pay you receive. The only thing you can’t do is contribute more than the annual cap that Congress sets. In 2019, it’s $19,000 plus an additional $6,000 if you’re 50 or older.

Slide 8 **Vesting and the BRS**

Vesting and the BRS
• You're always vested in your own contributions • You're vested in DoD automatic contributions after 2 years • You're immediately vested in DoD matching contributions • Your account value is portable: You can take it with you

OBJECTIVE: Explain vesting and portability as two major benefits of the BRS.

ASK: Does someone want to explain what "vested" means? *[Essentially it means you have earned the right to a pension or to your employer's contributions to a retirement savings plan, plus any earnings those contributions have provided.]*

Bullet 1

Whatever money you contribute to your retirement savings account in the BRS and any earnings on those contributions always belong to you. In other words, you're vested immediately in your own contributions.

Bullet 2

Remember that the DoD begins making automatic 1% contributions once you begin your 61st day of service. You're fully vested in those contributions after 2 years of service. You're also immediately vested in all automatic contributions the DoD makes for the rest of the time you serve.

Bullet 3

Once you finish 2 years of service, you qualify for matching DoD contributions on the contributions you make. You're fully vested in those contributions as soon as they go into your account.

Bullet 4

When you're vested and leave the armed forces, you can leave your retirement savings in your TSP account until you are ready to withdraw, typically after you're at least 59½ and often later. Your account can continue to grow in value as long as you leave it open.

But your account is portable. So, if you prefer, when you leave the military, you can move the account balance to another tax-deferred account. That could be an individual retirement account (IRA) or an account in a new employer's plan if that plan accepts transfers.

The one thing you don't want to do is take the money out and spend it. For one thing, you'll owe the government all the taxes you've deferred. For another, your retirement savings will be gone. That could be a serious problem in the future.

NOTE: Point out that before moving money out of a TSP account, it's important to compare the investment alternatives available in the new plan and its annual fees with what's available through the TSP.

You might also explain that the TSP is unique among retirement plans in allowing account holders to import assets from other tax-deferred accounts even if they have left military service.

Slide 9 **Where Your Contributions Go**

Where Your Contributions Go
 	
• As a BRS participant, you
• Have your own TSP account
• Choose investments from TSP offerings:
    – Five individual funds
    – Four lifecycle funds
• Allocate contributions on a percentage basis among selected funds

OBJECTIVE: Provide an overview of the ways servicemembers can invest their retirement savings contributions.

One important difference between a pension-only retirement plan and a retirement savings plan is the added responsibility you have with a savings plan to make investment decisions that will affect your future income.

Another difference is the commitment you have to make to contribute your account, ideally on a regular basis.

Bullet 1

As we've already noted, as a participant in the BRS, you have your own account in the federal government's Thrift Savings Plan (TSP). You can use your account number or user ID, plus your password, to access your account online. You can do that to check your account balance, recent contributions, and current return, or to authorize transactions. No one else has access to the account.

Bullet 2

When you begin to contribute to your TSP account, you decide how you want to invest the money you're putting in by choosing among the alternatives offered in the plan. The money the DoD adds to your account will be invested in the same way.

- There are five individual funds, identified by letters of the alphabet: G, F, C, S, and I. We'll look at those funds in more detail on the next slide.

- There are four lifecycle (L) Funds — L2020, L2030, L2040, and L2050. Each of them holds all five of the individual funds, though in different proportions. There's more to come about them, too.

Bullet 3

After you've selected your investments, you'll need to decide how the contribution you make each pay period will be divided among those choices on a percentage basis.

For example, you could put 20% of your contribution in each of the five funds — though there are reasons why you might put a higher percentage in certain funds and a smaller percentage in others. Your decision will depend on your investment strategy and what you want to accomplish.

Suppose your goal is to increase the potential for your account value to grow larger. In that case you might invest 90% of your contribution each pay period in the three TSP stock funds and put the remaining 10% in the fixed income fund.

Remember, also, that your choice of investments does not have to be permanent. You can change the way future contributions are invested at any time. And you can move money, on a percentage basis, from one investment fund to another using what's called an interfund transfer. For example, you could move 20% of the money invested in one stock fund into another stock fund or into the fixed income fund.

NOTE: Interfund transfers are limited. Account holders may make two transfers between funds each month. Any additional transfers require that any money being moved go into the government (G) Fund.

Slide 10 **Individual Funds**

Individual Funds
• Three stock funds for growth – Common large-cap stock (C) – Small- and mid-cap stock (S) – International stock (I) • One fixed-income (F) fund for income • One government fund (G) for income and asset preservation

OBJECTIVE: Provide an overview of the individual funds offered in the TSP.

All but one of the TSP individual funds — the G Fund is the exception — are index funds.

ASK: Who wants to explain what an index fund is? [*An index fund owns the stocks or bonds in a particular market index, such as the S&P 500 Index or the Dow Jones Industrial Average. The gains or losses in an index's value reflect the gains or losses in the combined performance of all of the stocks or bonds in the index. Each index follows a different part of the overall investment market.]*

There are advantages to investing in index funds. One is that each fund owns many investments, which helps to manage the risk that any single investment might lose value. Equally important, index funds have lower costs than other types of funds. The less you pay in fund fees, the more of the fund's return goes to help build your account value.

Bullet 1

The TSP menu of investments includes three stock index funds, also called equity funds. Investors typically choose stock funds if they are interested in investment growth, or increasing their account value. Some of that growth comes from increases in stock prices and some from the dividends that stocks — large company stocks in particular — may pay.

But it's essential to remember that investment growth is NOT guaranteed. Stocks gain value in some years and may lose value in others — and those ups and downs don't occur on a fixed schedule. This means your account may lose value in some years, though historically stock market gains have tended to outweigh stock market losses over the long term.

- The Common Stock Index Investment (C) Fund is invested in a separate account that tracks the Standard & Poor's 500 Stock Index (S&P 500) of large U.S. companies.
- The Small Capitalization Stock Index Investment (S) Fund is invested in a stock index fund that tracks the performance of the Dow Jones U.S. Completion Total Stock (TSM) Index of small and medium-sized U.S. companies.
- The International Stock Index Investment (I) Fund is invested in a stock index fund that tracks the performance of the MSCI EAFE Index of large companies in more than 20 developed countries excluding the U.S.

Bullet 2

The TSP menu includes one fixed-income fund, which you could also describe as a bond fund. The Fixed Income Index (F) Fund is invested in a separate account that tracks the performance of the Bloomberg Barclays U.S. Aggregate Bond Index.

Investors typically choose a fixed-income fund for the regular income it provides from the interest that's paid by the bonds in its portfolio. Bond interest isn't guaranteed, and the market price of bonds can move up or down as well. But those changes tend to occur more slowly than changes in stock prices.

Bullet 3

The Government Securities Investment (G) Fund invests in short-term U.S. Treasury issues and pays interest based on the yields of all U.S. Treasury securities with more than 4 years to maturity. It's designed to provide interest income while preserving your principal, or the amount you invested.

The G Fund is the only TSP fund that protects your principal against the risk of loss. But the fund does expose you to inflation risk. That means as the cost of living goes up, the return on the G Fund may not provide enough income to allow you to keep up with your costs.

Slide 11 **Lifecycle Funds**

Lifecycle Funds • Each lifecycle fund includes all five individual funds in different proportions • Balance shifts gradually from emphasis on growth to emphasis on income • At maturity the fund becomes an income fund • You select the fund with the date closest to your 62^{nd} birthday

OBJECTIVE: Introduce lifecycle funds, which are the default investment when servicemembers are automatically enrolled in the BRS.

A lifecycle fund, sometimes known as a target date fund, is designed to provide a source of retirement income for investors who are likely to retire within a certain time frame. There are 4 lifecycle funds with different target dates: 2020, 2030, 2040, and 2050.

For BRS participants, a lifecycle fund is the default investment. That means when your TSP account is opened, the contributions you make, along with the DoD automatic contributions, go into the L2050 Fund.

If you want to stay in the lifecycle fund, you don't have to do anything. But if you prefer to invest in the individual funds, you have the right to change the way your contributions are invested.

Bullet 1

Each lifecycle fund that the TSP offers includes all five of the individual TSP funds, but in different proportions. For example, the L2050 Fund, which has the longest time horizon, invests primarily in stock funds because it is seeking growth. But the L2020 Fund, with its very short time horizon, focuses on preserving assets and producing income. So it has a substantially larger allocation to the G Fund than the L2050 Fund does.

Bullet 2

But the L2050 Fund won't always own more stocks. What happens is that as an L Fund gets closer to its target date, it gradually shifts the balance among the five funds in its portfolio. Specifically, it moves money out of the stock funds and into the F and G Funds. In that way the lifecycle fund slowly exposes you to less risk as you get older, when retirement is closer and you'll need the money.

Bullet 3

As each lifecycle fund reaches its target date, it converts to an income fund, as the L2010 Fund has done and the L2020 Fund will do next year. Investors in an income fund are usually ready to take money out rather than add new contributions.

There's a word of caution though. L Funds are investments, and so the income they intend to provide is not guaranteed.

Bullet 4

If you stick with a lifecycle fund in which you're automatically enrolled, you'll be enrolled in the one whose date is closest to the year in which you will turn 62. For most of you, that means the L2050 Fund.

NOTE: Participants might ask whether, if you invest in an L Fund, that's the only investment you make. That is the standard practice. However, some people prefer to put some of their money into individual funds as well if they are willing to take more investment risk than these funds tend to do, especially as they reach their target dates.

You may want to suggest participants consult an accredited financial counselor to discuss the investment approach they are considering.

Slide 12 **Investing Basics**

Investing Basics • Achieving investment results depends on – How much you contribute – How many years you contribute – The investments you choose • Unlike saving, investing has risks • Taking some risk is essential to strong returns

OBJECTIVE: Provide an overview of the basic principles of investing.

When people invest, they are using money they have to make more money. Often they have a specific goal in mind. They hope that the money they earn on their investments will help them achieve that goal.

ASK: What types of goals might people be investing to achieve? [*Good examples of investment goals are paying for college, buying a home, having money to start a business, and especially enjoying a financially secure retirement.]*

Bullet 1

When you invest, you usually want to end up with more money than you have now and that you haven't had to work to earn. That is, the investment result you want is to have a financial gain.

Investment results depend on 3 basic factors.

1. **The amount you invest.** In the case of a retirement savings account, that means how much you contribute plus how much your employer adds in automatic and matching contributions. The more you invest, the more you have the potential to gain.
2. **How long your money is invested**. The longer money is invested, the greater its potential to provide gains. That's because of the power of compounding.

ASK: Who wants to remind us what compounding means?

3. **The investments you choose**. This is the hard part. Different investments provide different results, based on the way they put money to work. The results are also influenced by what's happening in the world and by decisions that companies and governments make. One reason people choose to invest in mutual funds is that they don't have to choose among individual investments.

Bullet 2

When you save, you're also using money to reach goals. Two big differences between saving and investing are that (1) the potential for gain is greater when you invest and (2) investing has risks that saving doesn't have.

When you put your money in a credit union or a bank, it's safe. If you deposit $100 today, you can withdraw $100 a year from now plus any interest you've earned. The safety is insured by the government. But you're not likely to see much gain.

When you invest, there's no insurance. It's possible that you could lose some of the money you invested or even all of it. For example, in a worst-case situation, if you bought stock in a company and the company went bankrupt, your investment could be worthless. Another risk is that you could gain less than you hoped. That could mean not being able to afford your goals. On the other hand, investing always has the potential for much more gain than saving does.

Bullet 3

The bottom line is that taking some risk is essential for a strong return. If you want to reach your long-term goals, you have to be willing to ride out some ups and downs in investment return.

You can also manage — though not eliminate — the risk you take if you follow some simple strategies. Let's look at 2 of them.

Slide 13 **Allocate and Diversify**

Allocate and Diversify
 	
• You can help manage investment risk by
  – Allocating, or owning different categories of investments at the same time
  – Diversifying, or owning different investments in each category
• Each category responds differently to what's happening in the economy
• Each category does better in some periods and worse in others

OBJECTIVE: Explain the investment strategies of allocation and diversification and how using them can help manage risk.

Bullet 1

There are a number of strategies that can help you manage risk. Two of the most useful are allocation and diversification.

Allocating means owning different categories of investments at the same time. For example, you might invest in funds C, S, I, and F. The first three invest in stocks and the fourth invests in bonds.

Diversifying means owning different investments in each category. So instead of putting all the contribution you allocate to stocks in the C Fund, you might put different percentages of your total contribution into the C, S, and I Funds.

Bullet 2

Each investment category — like stocks and bonds — responds differently to what's happening in the economy. For example, when interest rates are low, people tend to invest in stocks and so stocks gain value. But when interest rates are high enough, people sell off their stocks and invest in bonds. And when interest rates drop, stocks tend to start gaining again.

What's more, stocks in large companies (and the C Fund) provide bigger gains in some periods than stocks in small companies (and the S Fund). The opposite is true too. Sometimes small company stocks do better than large company stocks.

Bullet 3

What’s more, each category of investment has stronger returns in some periods and weaker ones in others. And when some are up, others tend to be down. How does that help you manage risk? If you always own some stocks (or the funds that invest in stocks) and some bonds (or the funds that invest in bonds), you can benefit from owning the investment category that’s doing better even if other investment categories are not performing well.

Slide 14 Using TSP Funds

Using TSP Funds

- TSP lifecycle funds allocate and diversify for you
  - More risk early (when you have time to make up any losses)
  - Less risk later (when retirement is closer)
- Or, you can allocate and diversify on your own with individual TSP funds, based on your
  - Investment goals
  - Appetite for risk

OBJECTIVE: Explain two approaches to allocation and diversification. One is by investing in a lifecycle fund. The other is investment in individual funds.

Bullet 1

One advantage of investing in a lifecycle fund is that the fund allocates and diversifies for you. It does that by owning all five of the individual TSP funds: three stock funds, a fixed income (bond) fund, and a government bond fund. And as we previously saw, the lifecycle shifts the balance among funds to lessen risk as the target date approaches.

Bullet 2

The other choice is to allocate and diversify on your own with individual funds. In that case you choose which funds to emphasize based on your investment goals and your appetite for investment risk. It’s more work to take this approach, but it may help you achieve your goals more effectively. That may be the result if you are willing to take more risk than the lifecycle fund might.

Slide 15 Conclusion

Conclusion
• Your long-term financial security depends on investing for retirement • The sooner you start, the more likely you are to reach your goals • Contributing enough to qualify for the full DoD match doubles the progress you make

OBJECTIVE: Conclude the formal portion of the presentation by encouraging those attending to participate fully in the BRS.

Bullet 1

The financial security you'll have when you're ready to retire is going to depend directly on investing for retirement now and throughout your working life. After all, how will you pay your bills when you're no longer working?

Bullet 2

When you understand compounding, you know that the sooner you start investing to meet your goals, the more likely you are to reach them.

Bullet 3

One of the smartest things you can do, as a BRS participant, is contribute at least enough every year to qualify for the full DoD match. That will double the progress you make toward your goals and your long-term financial security.