



AAFMAA Wealth Management & Trust LLC

The Blended Retirement System Explained: Should You Opt In?



AAFMAA Wealth Management & Trust

- **OUR MISSION:** to be the premier provider of financial planning, investment management, and trust services to the American Armed Forces community.





AAFMAA Wealth Management & Trust

Focusing exclusively on the needs of the military family, we work to provide innovative, personalized, and lifestyle appropriate financial services.

Bound by a fiduciary standard - any advice or service we offer must always be in the best interest of the client.





Agenda

- The two retirement systems
 - High-3 (Legacy)
 - Blended Retirement (BRS)
- Opt-in considerations
- Should I opt-in?





The Two Retirement Systems: Legacy

- Defined benefit
- $2.5\% \times \text{years and partial years of service} \times \text{retired base pay}$
 - Retired base pay is the average of highest 36 months basic pay
- With rare exceptions, must serve 20 or more years on Active Duty
- Reserve and National Guard must serve 20 or more qualifying years
 - 50 or more points must be earned for a qualifying year
 - Annuity begins at age 60 for most Reservists and Guardsmen
 - If recalled to Active Duty or to certain Active Service in response to a national emergency after January 28, 2008, the age 60 requirement can be reduced by 3 months for each cumulative period of 90 days or more in any fiscal year
- Entry on or after September 8, 1980 but before January 1, 2018

Members encouraged to invest in the Thrift Savings Plan (TSP); no Government match





The Two Retirement Systems: BRS

- Defined benefit and defined contribution
 - **Defined benefit:** 2.0% x the average of highest 36 months basic pay x years and partial years of service
 - **Defined contribution:** Government automatically invests 1% of basic pay into the Thrift Savings Plan (TSP); Government will match up to 4% basic pay if the member contributes at least 5% basic pay
- TSP matching: Member vested after 2 years of service
- Entry after January 1, 2018; can opt-in if Active Member has less than 12 years of service on December 31, 2017; Reserve Member must have less than 4,320 Reserve points on December 31, 2017

Your Contribution	Automatic Contribution	Service Contribution	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%
>5%	1%	4%	Yours + 5%



BRS (cont'd)

- Continuation Pay
 - A one-time payment in exchange for a minimum of 3 additional years of service
 - Payable after completion of 8 years of service but before the completion of 12 years of service
 - **Active Duty payment:** 2.5 to 13 times your basic pay
 - **Reserve or National Guard:** 0.5 to 6 times your basic pay
- Lump Sum
 - Discounted payment (25% or 50% of your future retirement payments)
 - Payment can be one lump sum payment or up to 4 years
 - Annuity is reduced by the percentage selected (i.e., retirement annuity being either 75% or 50% of the full value)
 - Full restoration of retirement at full Social Security age (67 for most personnel)

Continuation Pay and any other bonuses or special pays and incentives can be invested into TSP up to the IRS annual cap (\$18.5K in 2018; \$6K catch-up if 50 or older)



Opt-In Considerations

- Will I serve 20 more years and qualify for retirement annuity under High-3?
 - Are you confident you will be selected for promotions during your career?
- Can I afford to contribute at least 5% of my basic pay to obtain full Government matching under BRS?
 - **Recommendation: do not opt-in if you are not 100% certain you will contribute at least 5% of your basic pay**
- Do I need the Continuation Pay?
- Will I take the Lump Sum?
- How many years of Government matching will I receive if I opt-in?
 - The more years you serve after opting-in, the more funds you'll receive under BRS
- Are you willing to invest in securities, or are you risk averse?
 - You need to understand the risks and rewards of investing in securities versus fixed income

The on-line calculator is an invaluable tool in determining if you opt-in. Factors you can evaluate: time in service, promotion points, TSP contribution rate, TSP rate of return, Continuation Pay, and Lump Sum.



Thrift Savings Plan (TSP) Basics: Five Basic Investments

- **G Fund**
 - Objective: Produce a rate of return higher than inflation
 - Invests in short-term U.S. Treasury notes
 - Subject to inflation risk
- **F Fund**
 - Objective: Match performance of the Bloomberg Barclay's U.S. Aggregate Bond Index
 - Passively managed; uses an indexing approach
 - Subject to market risk (falls up and down with the bond index), inflation risk, default risk, and pre-payment risk



Five Basic Investments (cont'd)

- **C Fund**

- Objective: Match the Standard and Poor's S&P 500 index (passively managed)
- Earnings are primarily dividends and gains in the price of the stocks
- Risk: Market fluctuations and inflation

- **S Fund**

- Objective: Match performance of the U.S. Completion Total Stock Market index (stocks not in the S&P 500)
- Subject to market and inflation risks

- **I Fund**

- Objective: Match the MSCI EAFE Index (Europe, Australasia, Far East)
- Risks: Market, currency, inflation



TSP Basics: Lifecycle Funds

Lifecycle (L) Funds:

- Objective: balance expected risk and return
- Each fund is designed to match a participant's time horizon
- Allocations are automatically adjusted quarterly except the L Fund
- When a fund reaches its time horizon, it is rolled into the L fund

L Funds Allocation

	G	F	C	S	I
L Income	74%	6%	11%	3%	6%
L 2020	59%	7%	19%	5%	11%
L 2030	32%	7%	33%	10%	18%
L 2040	21%	7%	39%	12%	22%
L 2050	12%	6%	43%	14%	25%

L Funds Average Annual Returns (as of December 2017)

	1 Year	3 Year	5 Year	10 Year	Since Inception
L Income	6.19%	3.86%	4.46%	3.80%	4.15%
L 2020	9.86%	5.50%	7.44%	4.91%	5.56%
L 2030	14.54%	7.41%	9.50%	5.85%	6.31%
L 2040	16.77%	8.27%	10.68%	6.26%	6.73%
L 2050	18.81%	9.05%	11.72%	6.85%	10.53%



On-Line Calculator Example

- Below is a notional comparison of four runs:
 - TSP contributions and rate of return were changed on three runs
 - The fourth run Time in Service and Grade at Retirement were changed

Input Parameters

	Run 1	Run 2	Run 3	Run 4
Component	Active			
Grade	E-4			
Date of Birth	1-Nov-1995			
Date of Rank	1-Jun-2018			
Pay Entry Basic Date	1-Jun-2014			
Retirement	20 years, 0 months			24 years, 0 months
Opt-In Date	Dec-18			
Life Expectancy	85			
TSP Withdrawal	60 years, 0 months			
TSP Contributions	5%	5%	7%	5%
TSP Return Rate	7%	12%	12%	12%
Continuation Pay	2.5			
Lump Sum	0			
Grade at Retirement	E-7	E-7	E-7	E-8

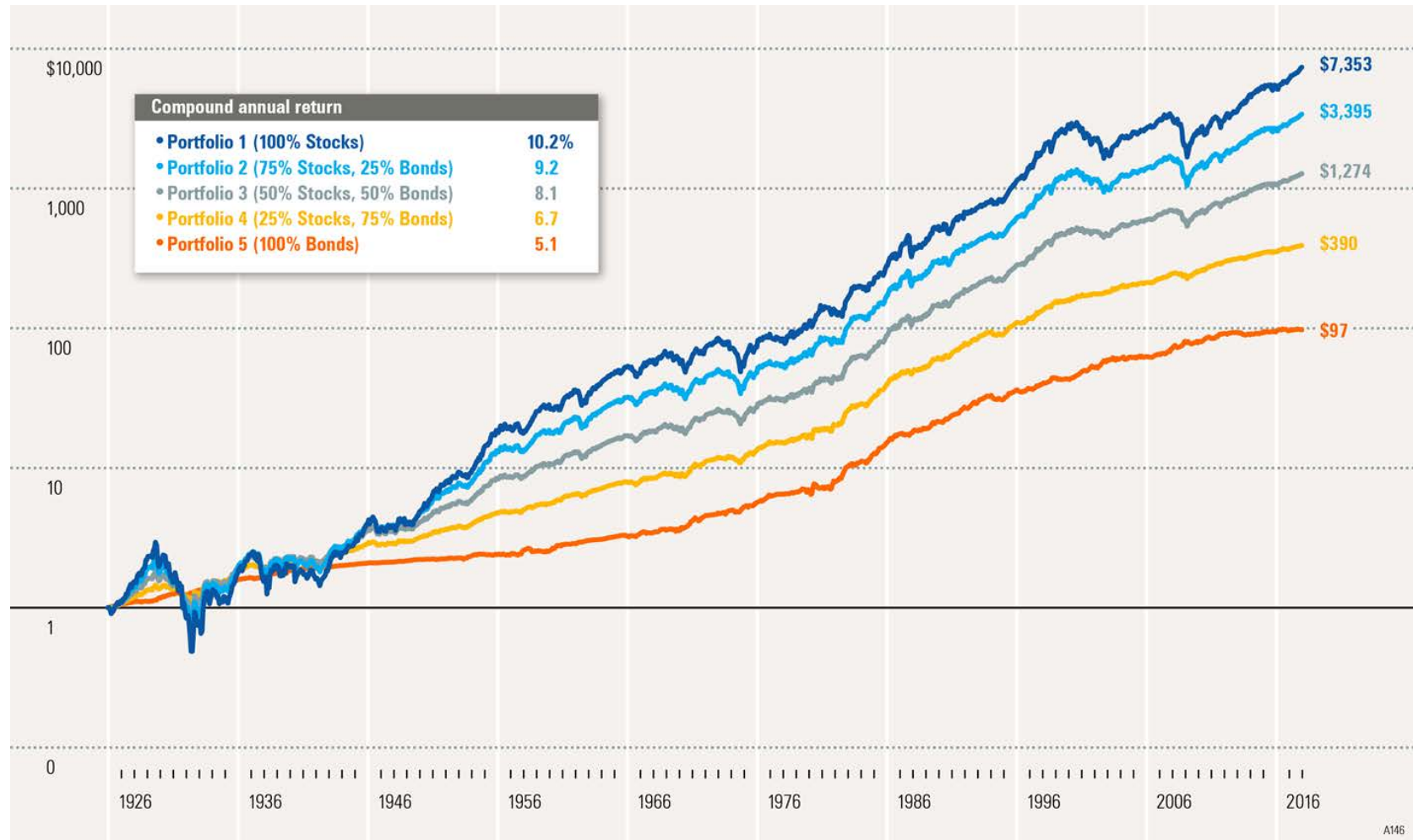
Results

	Run 1	Run 2	Run 3	Run 4
Present Value Legacy	\$1,218,576	\$1,218,576	\$1,218,576	\$1,855,009
Present Value BRS	\$1,117,049	\$1,181,359	\$1,222,658	\$1,862,177
Difference	\$101,527	\$37,217	-\$4,082	-\$7,168



Stocks, Bonds, and Inflation

Long-Term Portfolio Performance 1926–2017



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Asset-Class Winners and Losers

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Highest return	28.6	29.8	21.5	22.8	17.8	60.7	20.7	14.0	26.9	11.6	25.9	32.5	31.3	27.1	18.2	45.1	24.7	1.4	25.6	25.6	
	20.3	27.3	5.9	3.8	1.6	39.2	18.4	7.8	16.2	9.9	1.6	28.1	15.1	2.9	17.9	32.4	13.7	0.0	12.0	21.8	
	13.1	21.0	0.1	3.7	-6.3	28.7	11.9	7.1	15.8	5.5	-17.9	26.5	13.0	2.1	16.0	23.3	7.4	-0.4	8.2	13.1	
	11.9	14.8	-3.6	-0.6	-13.3	26.2	10.9	5.7	13.0	5.3	-36.7	14.4	10.1	0.0	11.1	17.6	2.9	-0.6	1.8	11.2	
	4.9	4.7	-9.1	-11.9	-15.7	1.4	8.5	4.9	4.8	4.7	-37.0	0.1	8.2	-3.3	3.4	0.0	0.0	-0.7	1.5	6.2	
Lowest return	-7.3	-9.0	-14.0	-21.2	-22.1	1.0	1.2	3.0	1.2	-5.2	-43.1	-14.9	0.1	-11.7	0.1	-12.8	-4.5	-3.6	0.2	0.8	

• Small stocks

• Large stocks

• International stocks

• Long-term government bonds

• Treasury bills

• Diversified portfolio

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Should I Opt-In?

What Should I do?

- Will you serve less than 20 years?
 - Opt-In
- Will I serve more than 20 years?
 - Run the on-line calculator to compare all the factors
 - ✦ Years of service at opt-in point
 - ✦ Willingness to invest at least 5% into TSP
 - ✦ Willing to invest in the securities (i.e., C, S, and I Funds in TSP)



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Questions



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