The Blended Retirement System

Family Law Bar Association—San Antonio

Continuing Legal Education Seminar

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James ("Jim") Cramp is the founder and principal at the Cramp Law Firm, PLLC. The majority of the firm's practice focuses on military divorce with a client base that is global. The firm also specializes in Federal civil service divorce, domestic relations orders for the division military retired pay and survivor's annuity benefits, court orders for the division of Federal civil service annuities and survivor's annuity benefits, and clarification orders for military retired pay and Federal civil services annuities, for the firm's clients and other attorneys locally and throughout Texas.

Jim retired from military service in the grade of colonel after having served 29 ½ years on active duty. His military career included flying, operations, support, recruiting, training and headquarters assignments. Jim is a three-time commander at the detachment, squadron and group levels.

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Organizations and Memberships

- American Bar Association
- State Bar of Texas
- Family Law Bar Association San Antonio
- Military Officers Association of America
- Harlan Society

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Introduction to the Blended Retirement System (BRS)

The National Defense Authorization Act of 2016 enacted a "Modernized Retirement System" for all service members entering military service on and after January 1, 2018. *National Defense Authorization Act for Fiscal Year 2016*, Public Law 114-92, November 25, 2015, Sections 631-35; 10 U.S.C. § 1409(b)(4)(A). Service members with less than 12 years of service on December 31, 2017, had the option to remain with the legacy military retirement system, commonly known as the "High-3 retirement system" (i.e. high-3 years' basic pay times 2.5 percent for each full year or 1/12th thereof for each full month of creditable service) or enroll, in the Modernized Retirement System. *See* 10 U.S.C. § 1409(b)(4)(B). The window in which an eligible service member had to decide to remain in the legacy system or enroll in the Modernized Retirement System was one year that started January 1, 2018 and ended December 31, 2018. *Id*. The Modernized Retirement System has been renamed by the Department of Defense as the "Blended Retirement System" or BRS (hereafter, and for brevity, referred to as the "BRS"). *See* Uniformed Services Blended Retirement System, *available at* https://militarypay.defense.gov/BlendedRetirement/ (last accessed December 30, 2019). According to the Department of Defense, more than 400,000 service members opted into the BRS during the one year enrollment window and more than 150,000 new accessions were automatically enrolled, bringing the total to more than 500,000 service members in the BRS as of December 31, 2018. *See* "News Release—Department of Defense Successfully Closes Blended Retirement System Opt-In Window," January 14, 2019, *available at* https://www.defense.gov/Newsroom/Releases/Release/Article/1731168/defense-department-successfully-closes-blended-retirement-system-opt-in-window/ (last accessed January 1, 2020). The Department of Defenses touts the BRS as "…the largest change to military retirement since World War II. *See id*.

BRS Reduced Retired Pay Multiplier

Under the BRS, the retired pay multiplier is reduced from 2.5 percent to 2 percent times the number of years of creditable service or 1/12th thereof for each full month of creditable service, at retirement. *See* 10 U.S.C. § 1409 (b)(4)(A)(i)-(iii) (establishing the retired pay multiplier for BRS as 2 percent); 10 U.S.C. § 1405 (determining full years and months of creditable service toward retirement). Thus, a service member retiring under the BRS with 20 years of creditable service receives 40 percent (instead of 50 percent) of his or her highest 36 months' base pay and 30 years creditable service receives 60 percent (instead of 75 percent). *See id*.

BRS Thrift Savings Plan (TSP) Automatic Enrollment

This reduction in retired pay multiplier from 2.5 percent to 2 percent is "blended" with the service member's automatic enrollment in the Thrift Savings Plan (TSP), a defined contribution plan. *See* 5 U.S.C. § 8440e(a)-(e) (describing TSP for a BRS service member). Automatic enrollment includes automatic contribution from the service member's pay at the "default rate" of 3 percent of basic pay. *See* 5 U.S.C. 8432(b)(2)(A)-(B). The default rate may be modified upward or downward by the service member. 5 U.S.C. § 8432(b)(2)(C)(i). The service member may also decline enrollment in TSP altogether. 5 U.S.C. § 8432(b)(2)(C)(ii). A service member who declines TSP enrollment is re-enrolled automatically at the default rate on January 1 of the next year. 5 U.S.C. § 8432(b)(2)(F).

Government Automatic TSP Contributions

Automatic contribution from the government starts 60 days after commencement of service. 5 U.S.C. § 8440e(e)(3)(A)(i). The automatic contribution from the government is 1 percent of the service member's monthly basic pay per month. 5 U.S.C. § 8432(c)(1). The automatic contributions are vested after the two years of service have been completed. 5 U.S.C. § 8432(g)(2)(C).

Government Matching TSP Contributions

Matching contributions from the government do not begin until 2 years and 1 day after commencement of service. 5 U.S.C. 8440e(3)(B)(i). Matching contributions end no later than 26 years of service. 5 U.S.C. 8440e(3)(B)(ii). The matching contributions are up to 3 percent of the service member's monthly basic pay and one-half the amount that exceeds 3 percent but never to exceed 5 percent in total, meaning 1 percent government automatic contribution and no more than 4 percent government matching contribution. *See* 5 U.S.C. § 8432(c)(2) (defining the government contribution amounts and limits); Exhibit "A." Matching contributions are vested when made. *See* 5 U.S.C. § 8432(g)(1) (stating that, except as otherwise provided in this subsection, all contributions under this section are fully nonforfeitable when made).

No Retroactive Government TSP Contributions

Service members who opted to move from the legacy retirement system to the BRS will not receive retroactive government automatic and/or matching contributions to an existing TSP account. 10 U.S.C. § 1409(b)(4)(D). For these service members, government contributions may only occur after enrollment in the BRS. *Id*.

TSP "Compounding" Example

The Department of Defense forecasts that a BRS service member who contributes $1,000 per year for 30 years to TSP will have accumulated $97,454.00 at retirement, comprised of $30,000.00 in contributions and $67,454.00 in growth. *See* "New Accessions Infographic (Active Duty)" and "New Accessions Infographic (Guard/Reserve)," *available at* https://militarypay.defense.gov/BlendedRetirem ent/ (last accessed January 1, 2020); Exhibit "B." These projected results assume a 7 percent annual growth rate. *See id*.

BRS Continuation Pay

The National Defense Authorization Act of 2016 established "continuation pay" and the National Defense Authorization Act of 2017 expanded the 2016 Act's use of continuation pay, a form of retention bonus, for BRS service members. *National Defense Authorization Act for Fiscal Year 2016*, Public Law 114-92, November 25, 2015, Section 634 (enacting continuation pay for BRS members with 12 years of service); *National Defense Authorization Act for Fiscal Year 2017*, Public Law 114-328, December 23, 2016, Section 633 (amending continuation pay to members who have completed 8 to 12 years of service); 37 U.S.C. § 356 (defining continuation pay for BRS members). Continuation pay "shall" be offered to BRS service members between the 8 and 12 year point if the member contracts to serve not less than three additional years. 37 U.S.C. § 356(a).

Continuation pay for active duty will be not less than 2.5 times the member's monthly basic pay. 37 U.S.C. § 356(b)(1)(A). At the Secretary's discretion, an additional amount of continuation pay may be added to a contract for service members with 12 years of service, with the additional amount not to exceed 13 months of basic pay. 37 U.S.C. § 356(b)(1)(B).

Continuation pay for reserve component service members (i.e. reserve or guard) contracts will be not less than 0.5 times the member's monthly basic pay. 37 U.S.C. § 356(b)(2)(A). At the Secretary's discretion, an additional amount of continuation pay may be added to the contract for reserve component service members with 12 years of service, with the additional amount not to exceed 6 months of basic pay. 37 U.S.C. § 356(b)(2)(B).

Continuation pay may be taken in a lump sum. 37 U.S.C. § 356(e). Alternately, continuation pay may be taken in a series of annual payments not to exceed four years. *Id*.

The Secretary has additional discretionary authority to add to the BRS continuation pay contract any sum the Secretary determines warranted. 37 U.S.C. § 356(c). Presumably, differences in discretionary continuation pay will be driven by a need to bolster retention levels among critical military occupational specialties. *See id*.

BRS Lump Sum Options with Reduced Monthly Retired Pay at Retirement

BRS service members have the option of taking his or her regular, unreduced monthly retired pay at retirement (i.e. high-3 years' basic pay times 2 percent for each full year or 1/12th thereof for each full month of creditable service) or a combination of a lump sum and reduced monthly retired pay. *See* 10 U.S.C. § 1407(b) (describing the high-3 average base pay for use in calculating retired pay); 10 U.S.C. § 1409(b)(4)(A) (describing the retired pay multiplier for the BRS as 2 percent instead of the legacy system's 2.5 percent); 10 U.S.C. § 1415(b) (describing the lump sum options). Servicemember's retired for disability, known as "Chapter 61 retirees," are not eligible for the lump sum options. 10 U.S.C. § 1415(a)(2)(B) (describing service members ineligible for the lump sum options).

Two lump sum options exist. The first is 50 percent of the lump sum of retired pay to be received from retirement until the service member's Social Security full retirement age, which is 67 years of age for those born in 1960 or later, discounted to present value. *See* 10 U.S.C. § 1415(b)(1)(A)(i) (describing the 50 percent lump sum option); "Full Retirement and Age 62 Benefits By Year of Birth," *available at* https://www.ssa.gov/planners/retire/agereductio n.html (last accessed January 1, 2020). The service member then receives monthly retired pay equal to 50 percent of his or her regular, unreduced monthly retired pay until attaining his or her full Social Security retirement age, at which time full, unreduced monthly retired pay is restored. 10 U.S.C. § 1415(b)(1)(B)(i) (describing the 50 percent reduced monthly

retired pay annuity during the covered period); 10 U.S.C. § 1415(c) (describing restoration of the full, unreduced monthly retired pay annuity upon achieving full Social Security retirement age). The second option is 25 percent of the lump sum of retired pay to be received from retirement until full Social Security retirement age, which, as before, is 67 years of age for those born in 1960 or later, discounted to present value. *See* 10 U.S.C. § 1415(b)(1)(A)(ii) (describing the 25 percent lump sum option); "Full Retirement and Age 62 Benefits By Year of Birth," *available at* https://www.ssa.gov/planners/retire/agereductio n.html (last accessed January 1, 2020). The servicemember then receives monthly retired pay equal to 75 percent of his or her regular, unreduced monthly retired pay until attaining his or her full Social Security retirement age, at which time a full, unreduced monthly retired pay is restored. 10 U.S.C. § 1415(b)(1)(B)(ii) (describing the 75 percent regular, unreduced monthly annuity during the covered period); 10 U.S.C. § 1415(c) (describing restoration of the full, unreduced monthly retired pay annuity upon achieving full Social Security retirement age).

BRS service members eligible to elect a lump sum must make the election not later than 90 days prior to retirement. 10 U.S.C. § 1415(b)(3) (describing timing of election). The election includes opting for a single lump sum payment or a series of equal payments not to exceed annual payments over 4 years. 10 U.S.C. § 1415(b)(4) (describing the option for a single lump sum or combination of payments); "Blended Retirement System Fact Sheet—Lump Sum Options," *available at* https://militarypay.defense.gov/BlendedRetirem ent/ (last accessed January 1, 2020) (describing the option for a single lump sum or up to four annual payments in equal amounts). A lump sum election may not be revoked on or after the date of retirement. Department of Defense Financial Management Regulation 7000.14-R, Volume 7B, *Military Pay Policies and Procedures—Retired Pay*, Chapter 3, *Gross Pay Computation*, Paragraph 0306, *Lump Sum Payments of*

Retirement Annuity, Subparagraph 030602 C. (describing when a lump sum election becomes irrevocable) (hereafter, and for brevity, referred to as "the DODFMR").

Lump Sums and VA Disability Compensation

The Defense Finance and Accounting Service (DFAS), the Secretary of Defense's pay agent, will report all lump sum elections to the Department of Veterans Affairs (hereafter, and for brevity, "the VA"). DODFMR, Chapter 3, *Gross Pay Computation*, Paragraph 0306, *Lump Sum Payments of Retirement Annuity*, Subparagraph 030608 A. The VA will withhold payments of VA disability compensation to any retiree who elects a lump sum until the full amount of VA disability compensation that otherwise would be paid has been recouped up to and including 100 percent of the lump sum amount. *See id*. at Subparagraph 030608 B (describing the VA's recoupment of VA disability compensation from lump sums with internal citations to applicable provisions in Title 38, *Veterans Benefits*). Thereafter, the retiree must agree to waive a portion of future retired pay equal to future VA disability compensation subject to waiver. *See id*. Retirees eligible to receive Concurrent Retirement and Disability Pay (i.e. retirees who have a VA disability rating of 50 percent or more) will not experience the VA waiver/recoupment just described. *See id*. at 030608 C (describing the impact of CRDP with internal citations to applicable provisions of Title 38 and 10 U.S.C. § 1414, *Concurrent Retirement and Disability Pay*). Complex rules apply to retirees eligible to receive Combat-Related Special Compensation (CRSC) and these retirees are well-advised to consult with DFAS, a Veterans Service Organization and/or the DODFMR about the impact. *See* DODFMR, Chapter 3, *Gross Pay Computation*, Paragraph 0306, *Lump Sum Payments of Retirement Annuity*, Subparagraph 030608 D (describing the VA waiver for CRSC recipients, with internal citations to applicable provisions in Title 38 and

10 U.S.C. 1413a, *Combat-Related Special Compensation*).

Former Spouse Protection Under BRS

Consistent with the Uniformed Services Former Spouse Protection Act (USFSPA), codified at 10 U.S.C. § 1408, DFAS will ensure a former spouse receives his or her share of any lump sum election, subject to the conditions specified in a court order and subject to the aforementioned prospects for any impact of recoupment of VA disability compensation. *See* 10 U.S.C. § 1408; DODFMR, Chapter 3, *Gross Pay Computation*, Paragraph 0306, *Lump Sum Payments of Retirement Annuity*, Subparagraph 030611 (describing that lump sums are subject to division under the USFSPA). Similarly, a retiree who opts for a lump sum and reduced monthly retired pay during the covered period will not affect a former spouse Survivor Benefit Plan (SBP) election made under court order. *See* DODFMR, Chapter 3, *Gross Pay Computation*, Paragraph 0306, *Lump Sum Payments of Retirement Annuity*, Subparagraph 030609 (describing lump sum effects, if any, on a former spouse's SBP award). The former spouse will still receive SBP protection at the full base amount (i.e. the full, unreduced amount of retired pay) unless a reduced base amount had been previously elected at time of retirement, if retirement preceded divorce, or at divorce by court order. *See id*. at 030609-609 A. (describing the base amount will be the unreduced retired pay notwithstanding any lump sum election unless previously reduced at retirement or by court order). Similarly, the SBP premiums are not affected by any lump sum election and shall be calculated upon the full base amount. *See* DODFMR, Chapter 42, *Survivor Benefit Plan (SBP) Application of the Plan*, Paragraph 4202, *Survivor Benefit Plan (SBP) Overview*, Subparagraph 420204 (describing SBP premiums under the BRS).

Former spouse SBP premiums will continue to be deducted from the retiree's share of military retired pay. *See* DODFMR, Chapter 45, *Survivor Benefit Plan (SBP) Premiums*, Paragraph 4507,

Payment of Premium, Subparagraph 450701 A. (describing that premiums are deducted from the retiree's retired pay when enough retired pay exists to cover the premium). If enough retired pay does not exist to cover the premium, the retiree must submit the full premium, or amount remaining to be paid, to DFAS. *See id*. at Subparagraph 450701 B.

SECDEF Control of Lump Sum Variables

The Secretary of Defense (SECDEF) controls all of the variables that go into a lump sum's present value calculation, notwithstanding the discussion that follows on use of COLAs and the present value discount rate. *See* 10 U.S.C. § 1415(b)(2) (describing the Secretary of Defense's authority to compute present value for lump sums). To estimate the aggregate amount of payments from retirement to full Social Security retirement age, the Secretary applies cost-of-living adjustments (COLAs) projected by the Secretary to the service member's retired pay for the covered time period (i.e. until the service member attains full Social Security retirement age). *See* 10 U.S.C. § 1415(b)(2)(A) (describing Secretary's calculation of aggregate retired pay for the covered period). In determining the discounted present value of the aggregate payments, the Secretary uses, among other factors, discount rates from reputable studies, past actuarial experience and generally accepted actuarial principles and practices. *See* 10 U.S.C. § 1415(b)(2)(B) (describing factors in the Secretary's calculation of the aggregate retired pay's present value).

Computing the Aggregate Sum from Retirement Until Full Social Security Retirement Age: COLAs

In calculating the aggregate sum of retired pay over the covered period, COLAs from the Office of Management and Budget (OMB) for the immediate five calendar years shall be used by the Department of Defense Office of the Actuary; COLAs beyond the immediate five years use the Department of Defense Board of Actuaries annual inflation assumption of 2.75 percent. *See*

"Blended Retirement System Comparison Calculator," available at https://militarypay.defense.gov/Calculators/BRS/ (last accessed on January 1, 2020) (reviewing factors and sources described in the "Learn more about assumptions, defaults and limitations of this calculator" tab on the main webpage).

Computing Present Value of the Aggregate Sum: Discount Rate

The discount rate used in present value computations is published by the Office of the Assistant Secretary of Defense—Manpower and Reserve Affairs (OASD-Manpower and Reserve Affairs) by June 1st annually to be effective January 1st of the next year. *See* "Lump Sum Discount Rate—CY2020 Rate," OASD—Manpower and Reserve Affairs letter dated May 29, 2019, "Subject: Blended Retirement System Discount Rate for 2020," available at https://militarypay.defense.gov/BlendedRetirement/; Exhibit "C." The discount rate for calendar year 2020 is 6.75 percent. *See id*.

Author's Hypo Example Calculating Aggregate Sum and Its Discounted Present Value Using Current Department of Defense Variables

The author constructed a hypothetical retirement at Exhibit "D" to demonstrate the effect of calculating the aggregate retired pay due from retirement until full Social Security retirement age and the resulting discounted present value. The author's calculations incorporated the current Department of Defense Board of Actuaries inflation (COLA) assumptions, as shown in Table 1, on the next page, and the current discount rate of 6.75 percent.

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TABLE 1		
YEAR	COLA	SOURCE
2021	2.2%	DoD Actuary
2022	2.3%	DoD Actuary
2023	2.3%	DoD Actuary
2024	2.3%	DoD Actuary
2025	2.3%	DoD Actuary
2026 +	2.75%	DoD Actuary

See "Valuation of Military Retirement System as of September 30, 2017 (Revised April 2019)," Department of Defense Office of the Actuary, Table 8 Footnotes, Page 29, "Annual Economic Assumptions Used in Projections of Plan Assets," *available at* https://actuary.defense.gov/ (last accessed December 29, 2019). The author's calculations of aggregate retired pay at Exhibit "D" reflect retired pay for each year within the covered period that, if not a multiple of $1, is rounded down to the nearest whole dollar. *See* 10 U.S.C. § 1412(a) (establishing the requirement to round down in calculating retired pay).

Hypo Service Member Assumptions

The author's assumptions for this hypothetical service member, and soon-to-be hypothetical retiree, are in Table 2, below.

TABLE 2	
FACTOR	ASSUMPTION
1. Rank	O-5
2. Date of Rank	March 1, 2013
3. Date Entered Active Duty	March 1, 1996
4. Pay Date	March 1, 1996
5. Date of Birth	March 31, 1974
6. Date of Full Retirement Age (i.e. age 67)	March 31, 2041

Example Results Using Current Department of Defense Variables

Exhibit "D" reflects the hypothetical retiree will attain full Social Security retirement age of 67 on 31 March 2041. *See* Exhibit "D," Column 1. The aggregate retired pay from retirement to full

Social Security retirement age per year, shown in Exhibit "D," Column 2, is "1 plus the COLA" shown in Table 1. The monthly gross retired pay for the hypothetical retiree, as shown in Exhibit "D," Column 3, begins with a BRS hypothetical retired pay in 2020 of $4,449.00, and increases annually by the COLA multiplier in Column 2, rounded down to the nearest whole dollar per 10 U.S.C. §1412(a). Exhibit "D," Column 4 is the aggregate annual BRS retired pay, which for 2020 is the monthly pay in Column 3 times 9 months, since hypothetical retirement occurred March 31, 2020. For 2041, Column 4 is the aggregate annual retired pay in Column 3 times 3 months, since full Social Security retirement age is reached on March 31, 2041. For all other years, it is the monthly pay in Column 3 times 12 months. The resulting aggregate sum of retired pay, based on the assumptions, is **$1,468,071.00**, for the covered period from retirement until full Social Security retirement age. (emphasis added).

The formula to discount the aggregate sum to its present value is as follows: $PV = FV \div (1 + r)^n$. PV, of course, equals present value. FV, of course, equals future value or the annual aggregate amounts of retired pay for each year during the covered period. The "r" equals the discount rate, here 6.75% for calendar year 2020 retirements and each subsequent year during the covered period. The "n" increases the discount rate to a power, the power being equal to the number of periods (i.e. years) from start to end of the covered period; here, for 2021, "n" equals 1; for 2022, "n" equals 2; and, so on. *See* https://www.investopedia.com/terms/p/presentva lue.asp (last accessed on January 1, 2020) (explaining present value calculations). For example, the present value of the aggregate amount of retired pay for 2030, the aggregate amount being $68,352.00, is the product of $68,352.00 divided by $(1.0675)^{10}$, or $68,352.00 divided by 1.9217, which yields a discounted present value of $35,569.06 for the aggregate sum due for 2030. *See id.*; Exhibit "D." Altogether, the aggregate sum due for our hypothetical retiree from retirement to full Social

Security retirement age of **$1,468.071.00**, has been discounted to a present value of **$763,068.46**, based on a 2020 discount rate of 6.75 percent. *See id*.; author's assumptions. Thus, a 50 percent lump sum would equal **$381,534.23** and a 25 percent lump sum would equal **$190,767.11**. *See* 10 U.S.C. § 1415(b)(1)(A)(i)-(ii) (describing the 50 percent and 25 percent lump sum options); 10 U.S.C. § 1415(b)(6) (establishing that the service member has no recourse if the Secretary's assumptions over time prove to the detriment of the service member); author's assumptions. (emphasis added).

Caution: Department of Defense Variables Not Subject to Review Based on Actual Impact Over Time

The large disparity between the COLAs used to calculate the aggregate sum (e.g. less than 3 percent per year) and discount rate to determine the aggregate sum's present value (e.g. 6.75 percent for 2020) begs the question whether electing a lump sum is a wise choice for the service member. *See* 10 U.S.C. § 1415(b)(6) (stating that a service member who elects a lump sum may not seek a review or otherwise challenge the validity of the assumptions used after payment of the lump sum). The Secretary's assumptions are final, appear to favor the Department of Defense, and the service member has no recourse if the assumptions prove detrimental over time *See id*.

Author's Alternate Hypo Example Calculating Aggregate Sum Using Current Department of Defense COLAs and Author's Posited Discount Rate

In the author's alternate hypothetical example at Exhibit "E," all assumptions remain the same, except the discount rate has been reduced to 4.00 percent. *See* Exhibit "E." A discount rate of 4 percent is posited purely on the author's observation that it provides the Department of Defense slightly more than a 1.25 percent hedge

above the COLAs used in calculating the aggregate. *See* Table 1. The result in a decrease of the discount rate to 4.00 percent is dramatic for the service member; the discounted present value of the same **$1,468,071.00** aggregate sum of retired pay from retirement to full Social Security retirement age, rises to **$972,603.08**, or an increase of **$209,534.62**. *See* Exhibit "E." (emphasis added). Thus, a 50 percent lump sum would equal **$486,301.54** and a 25 percent lump sum would equal **$243,150.77**. *See* 10 U.S.C. § 1415(b)(1)(A)(i)-(ii) (describing the 50 percent and 25 percent lump sum options); 10 U.S.C. § 1415(b)(6) (establishing that the service member has no recourse if the Secretary's assumptions over time prove to the detriment of the service member); author's assumptions. (emphasis added).

BRS Summary

In summary, the BRS already had more than 500,000 service members enrolled at the end of 2018 and its importance will continue to grow with each passing year as ever-greater numbers of new service members enroll. The key features of the BRS include the following:

1. Retention of the high-3 concept but with a reduced retired pay multiplier of 2 percent for each full year of creditable service or 1/12th thereof.

2. Automatic enrollment in the Thrift Savings Plan with automatic government contribution of 1 percent of basic pay after 60 days of service and up to an additional 4 percent matching contributions after 2 years of service (for a total government contribution not to exceed 5 percent).

3. Continuation pay between 8 and 12 years of creditable service with opportunities for upward adjustments at the Secretary's discretion.

4. The opportunity to elect a lump sum payment of 25 percent of the discounted present value of aggregate retired pay for

the years between retirement and attainment of full Social Security retirement age, with a reduced monthly retired pay payment of 75 percent of the full entitlement.

5. The opportunity to elect a lump sum payment of 50 percent of the discounted present value of aggregate retired pay for the years between retirement and attainment of full Social Security retirement age, with a reduced monthly retired pay payment of 50 percent of the full entitlement.

6. Protections under the Uniformed Services Former Spouse Act and Department of Defense regulations for the former spouse's share of any lump sum and reduced monthly retired pay payment. Protection against reduction of the SBP base amount unless a reduced base amount had been previously elected or court-ordered.

7. Restoration of a full, unreduced monthly retired pay payment at full Social Security retirement age for those service members who opted for a lump sum.

Exhibit "A"

"BRS Fact Sheet—Defined Contribution"

Source: https://militarypay.defense.gov/BlendedRetirement/ (last accessed December 30, 2019)

How your contributions matchup

Service Contributions to Your Account
(Service Employees Only)

You put in:	Your service puts in:		And the total contribution is:
	Automatic (1%) Contribution	Service Matching Contribution	
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%
More than 5%	1%	4%	Your Contribution + 5%

Exhibit "B"

"BRS New Accessions Infographic (Active Duty)"
"BRS New Accessions Infographic (Guard/Reserve)"

Source: https://militarypay.defense.gov/BlendedRetirement/ (last accessed January 1, 2020)

Maximize Your TSP

The Power of Compounding

Compounding is powerful because it allows you to make money, not just on the money you contribute to your TSP, but also on the money that it earns. Think of it as having a snowball effect—so the sooner you start saving, the more years you have to save, and the more effective compounding is in building retirement savings.

10 Years
20 Years
30 Years

$1,000   7% $14,254   7% $42,294   7%

$1,000 per yr for 30 years* $97,454 Acct Value
$30,000 Contributions
$67,454 Acct Growth

(*calculation using the planning tools at TSP.gov, based on an annual growth rate of 7% with monthly contributions)

Exhibit "C"

"Lump Sum Discount—CY2020 Rate"

Source: https://militarypay.defense.gov/BlendedRetirement/ (last accessed December 30, 2019)

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WASHINGTON, D.C. 20301- 1500

MANPOWER AND
RESERVE AFFAIRS

2 9 MAY 2019

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY FOR
MILITARY PERSONNEL AND QUALITY OF LIFE
DEPUTY ASSISTANT SECRETARY OF THE NAVY FOR
MILITARY MANPOWER AND PERSONNEL
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE FOR
FORCE MANAGEMENT AND PERSONNEL
ASSISTANT COMMANDANT FOR HUMAN RESOURCES,
U.S. COAST GUARD
DIRECTOR, DIVISION OF COMMISSIONED PERSONNEL,
U.S. PUBLIC HEALTH SERVICE
DIRECTOR, NATIONAL OCEANIC AND ATMOSPHERIC
ADMINISTRATION CORPS OPERATIONS-NC
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Blended Retirement System Lump Sum Discount Rate for 2020

Members of the Uniformed Services enrolled in the Blended Retirement System (BRS) may elect to receive a lump sum of a portion of their retired pay upon retirement. In accordance with Section 1415 of Title 10, United States Code (U.S.C.), the amount of the lump sum is to be determined using a discount rate. The formula for determining that discount rate is published in Attachment 2 to the Deputy Secretary of Defense memo "Implementation of the Blended Retirement System" dated January 27, 2017.

According to the published formula, the Lump Sum Discount Rate (LSDR) for lump-sum elections occurring in calendar year 2020 is **6.75%**, as calculated by the DoD Office of the Actuary. This rate is in effect for any retirement for which a member is eligible to begin receiving retired pay during the period from January 1, 2020 through December 31, 2020.

In accordance with the Deputy Secretary of Defense Memorandum, the LSDR is promulgated no later than June 1 to go into effect on January 1 of the following year. The next update to the LSDR will be published in June 2020 to be applied to lump-sum elections occurring in calendar year 2021.

Lernes J. Hebert
Acting Deputy Assistant Secretary
(Military Personnel Policy)

Exhibit "D"

"Author's Hypothetical Example for Calculation of the Aggregate Sum of Retired Pay Using Government COLA Assumptions and Discounted Present Value for the Covered Period Using the Government's 2020 Discount Rate of 6.75 Percent"

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Year	COLA Multiplier	Monthly Gross Ret. Pay	SVC MBR Aggregate Ret. Pay	PV Equation Denominator $(1 + i)^n$	Present Value for 6.75% Discount Rate
2020	N/A	$4,449.00	$40,041.00	1.0000	$40,041.00
2021	1.022	$4,546.00	$54,552.00	1.0675	$51,102.58
2022	1.023	$4,650.00	$55,800.00	1.1396	$48,966.43
2023	1.023	$4,756.00	$57,072.00	1.2165	$46,915.83
2024	1.023	$4,865.00	$58,380.00	1.2986	$44,956.51
2025	1.023	$4,976.00	$59,712.00	1.3862	$43,074.69
2026	1.0275	$5,112.00	$61,344.00	1.4798	$41,453.84
2027	1.0275	$5,252.00	$63,024.00	1.5797	$39,896.13
2028	1.0275	$5,396.00	$64,752.00	1.6863	$38,398.13
2029	1.0275	$5,544.00	$66,528.00	1.8002	$36,956.73
2030	1.0275	$5,696.00	$68,352.00	1.9217	$35,569.06
2031	1.0275	$5,852.00	$70,224.00	2.0514	$34,232.52
2032	1.0275	$6,012.00	$72,144.00	2.1899	$32,944.70
2033	1.0275	$6,177.00	$74,124.00	2.3377	$31,708.55
2034	1.0275	$6,346.00	$76,152.00	2.4955	$30,516.23
2035	1.0275	$6,520.00	$78,240.00	2.6639	$29,370.45
2036	1.0275	$6,699.00	$80,388.00	2.8437	$28,268.65
2037	1.0275	$6,883.00	$82,596.00	3.0357	$27,208.52
2038	1.0275	$7,072.00	$84,864.00	3.2406	$26,187.96
2039	1.0275	$7,266.00	$87,192.00	3.4593	$25,205.01
2040	1.0275	$7,465.00	$89,580.00	3.6928	$24,257.91
2041	1.0275	$7,670.00	$23,010.00	3.9421	$5,837.02
SUBTOTAL			$1,468,071.00		$763,068.46

Exhibit "E"

"Author's Alternate Hypothetical Example for Calculation of the Aggregate Sum of Retired Pay Using Government COLAs and Discounted Present Value for the Covered Period Using the Author's Posited Discount Rate of 4.00 Percent"

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Year	COLA Multiplier	Monthly Gross Ret. Pay	SVC MBR Aggregate Ret. Pay	PV Equation Denominator $(1 + i)^n$	Present Value for 4.00% Discount Rate
2020	N/A	$4,449.00	$40,041.00	1.0000	$40,041.00
2021	1.022	$4,546.00	$54,552.00	1.0400	$52,453.85
2022	1.023	$4,650.00	$55,800.00	1.0816	$51,590.24
2023	1.023	$4,756.00	$57,072.00	1.1249	$50,736.80
2024	1.023	$4,865.00	$58,380.00	1.1699	$49,903.47
2025	1.023	$4,976.00	$59,712.00	1.2167	$49,078.91
2026	1.0275	$5,112.00	$61,344.00	1.2653	$48,481.05
2027	1.0275	$5,252.00	$63,024.00	1.3159	$47,893.06
2028	1.0275	$5,396.00	$64,752.00	1.3686	$47,313.65
2029	1.0275	$5,544.00	$66,528.00	1.4233	$46,741.69
2030	1.0275	$5,696.00	$68,352.00	1.4802	$46,176.16
2031	1.0275	$5,852.00	$70,224.00	1.5395	$45,616.17
2032	1.0275	$6,012.00	$72,144.00	1.6010	$45,060.93
2033	1.0275	$6,177.00	$74,124.00	1.6651	$44,516.95
2034	1.0275	$6,346.00	$76,152.00	1.7317	$43,975.88
2035	1.0275	$6,520.00	$78,240.00	1.8009	$43,443.89
2036	1.0275	$6,699.00	$80,388.00	1.8730	$42,919.81
2037	1.0275	$6,883.00	$82,596.00	1.9479	$42,402.58
2038	1.0275	$7,072.00	$84,864.00	2.0258	$41,891.26
2039	1.0275	$7,266.00	$87,192.00	2.1068	$41,385.02
2040	1.0275	$7,465.00	$89,580.00	2.1911	$40,883.14
2041	1.0275	$7,670.00	$23,010.00	2.2788	$10,097.56
SUBTOTAL			$1,468,071.00		$972,603.08