

Understanding Your Future Retirement Benefits

Presented by

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Implementation Plan

- **Entered Service before 1 Jan 2006**
 - Stay in current system; no option to change
 - Be prepared to counsel subordinates
- **Entered Service CY2006 after; opt-in option**
 - Opt-in window opens in CY2018
- **Enter in and after Jan 2018**
 - All-in new program

Understanding the Numbers

Present Value

- Lump-sum value at the beginning of retirement
- An amount that will provide for retirement given a rate of return
- Assumes 7% return and 2.5% COLA

Lifetime Value

- What you are paid over a lifetime
- Sit back and collect
- No lump sum; nothing invested; no return
- Assumes COLA 2.5%

Time



7% approximates the average return used by DOD
2.5% COLA approximates the national historical average

Current Retirement Benefit

TSP w/o a match, no bonuses – Part 1

- Max contribution in 2017, \$18,000 year/\$1500mo
- Value is **in addition** to the pension benefit

Vested Pension at 20YOS—Value of Your Annuity – Part 2

- 2.5% per YOS times Hi-3 Base Pay
 - 50% @ 20YOS to 75% @ 30YOS
- **20YOS E7 -- \$2170mo**
 - For 50 years, w/2.5% COLAs, Lifetime Value: \$2,589,000
 - *Present Value: \$289,430 at 20 years of service**
- **20YOS O5 -- \$4137mo**
 - For 50 years, w/2.5% COLAs, Lifetime Value: \$4,936,000
 - *Present Value: \$551,870 at 20 years of service**

New Blended Retirement Plan

Part 1

TSP with a match and 12YOS bonus

- Max contribution in 2017, \$18,000 year/\$1500mo
- Value is in addition to the pension benefit
- **1% automatic DOD contribution**—begins start of service
- **4% max match rate**—starts beginning of 3rd YOS
- **Match stops at 26YOS**
- **Vested in match after 2YOS**—starting in the third YOS
- **Bonus at 8-12YOS: minimum amount** equal to 2.5 times base pay AD; half AD monthly base pay for Guard-Reserves
 - Max possible up to 13 months base pay/6mos Res/Grd
 - Service commitment of 3 years

New Blended Retirement Plan

Part 2

Vested Pension at 20YOS—Value of Your Annuity

- **2% per YOS** times Hi-3 Base Pay
 - 40% for 20YOS up to 60% for 30YOS
- **20YOS E7 -- \$1736mo**
 - For 50 years, w/ 2.5% COLAs, Lifetime Value: \$2,070,000
 - *Present Value: \$231,440 at 20 years of service**
- **20YOS O5 -- \$3310mo**
 - For 50 years, w/2.5% COLAs, Lifetime Value: \$3,949,000
 - *Present Value: \$441,500 at 20 years of service**

Retirement Plan Comparison

Current

- TSP no match
- Plus Pension
 - (2.5% X YOS) X High-3 base pay = Retired Pay
 - COLA

Present Value*:

E7 -- \$289,430

O5 -- \$551,870

New

- TSP w/match and Bonus
- Plus Pension
 - (2% X YOS) X High-3 base pay = Retired Pay
 - COLA

Present Value*:

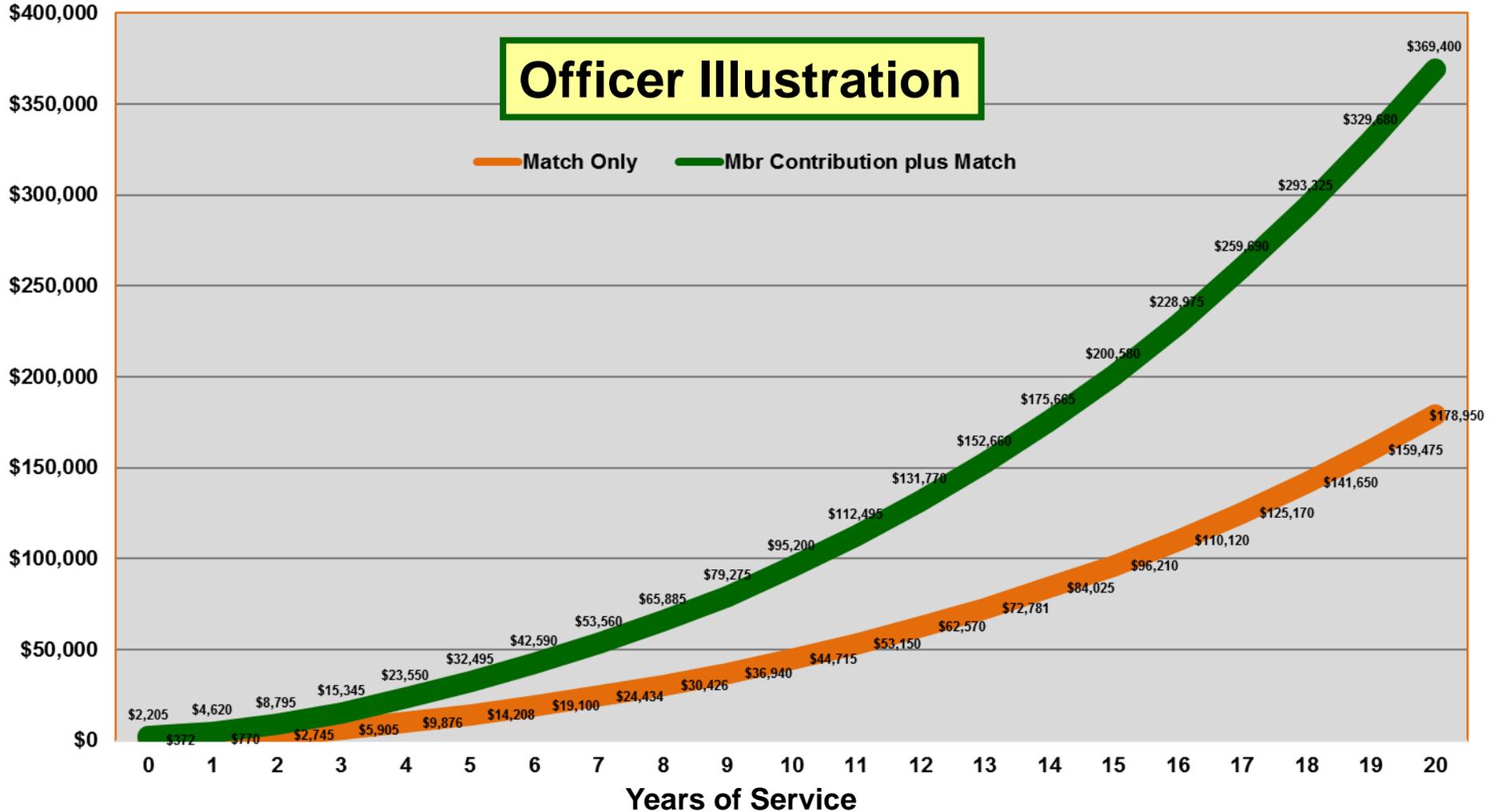
E7 -- \$231,440

O5 -- \$441,500

TSP With A Match

What's The Difference?

What's the match alone worth?

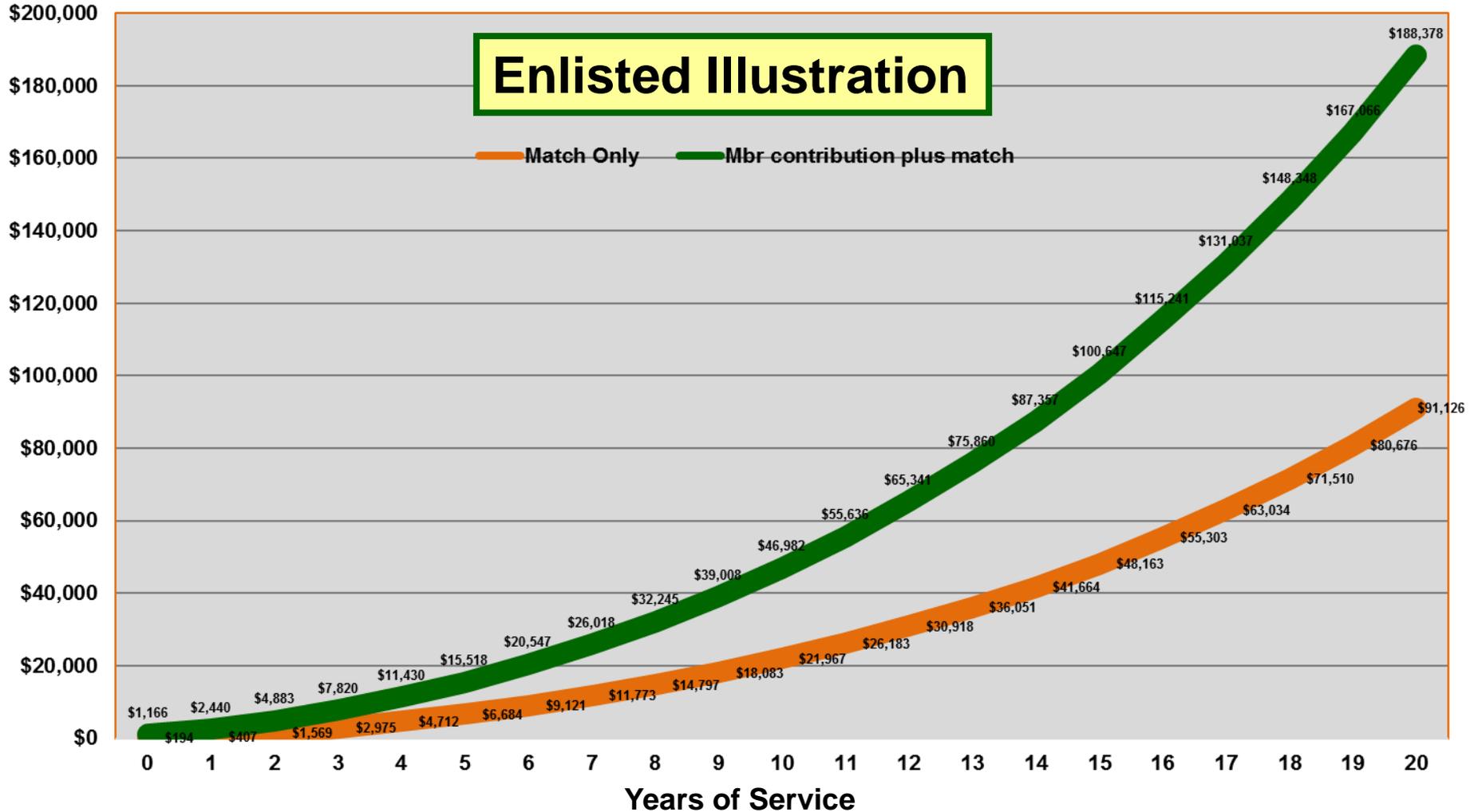


7% avg annual rtn, 5% mbr contribution, 1/5% DOD match, normal promotion years

TSP With A Match

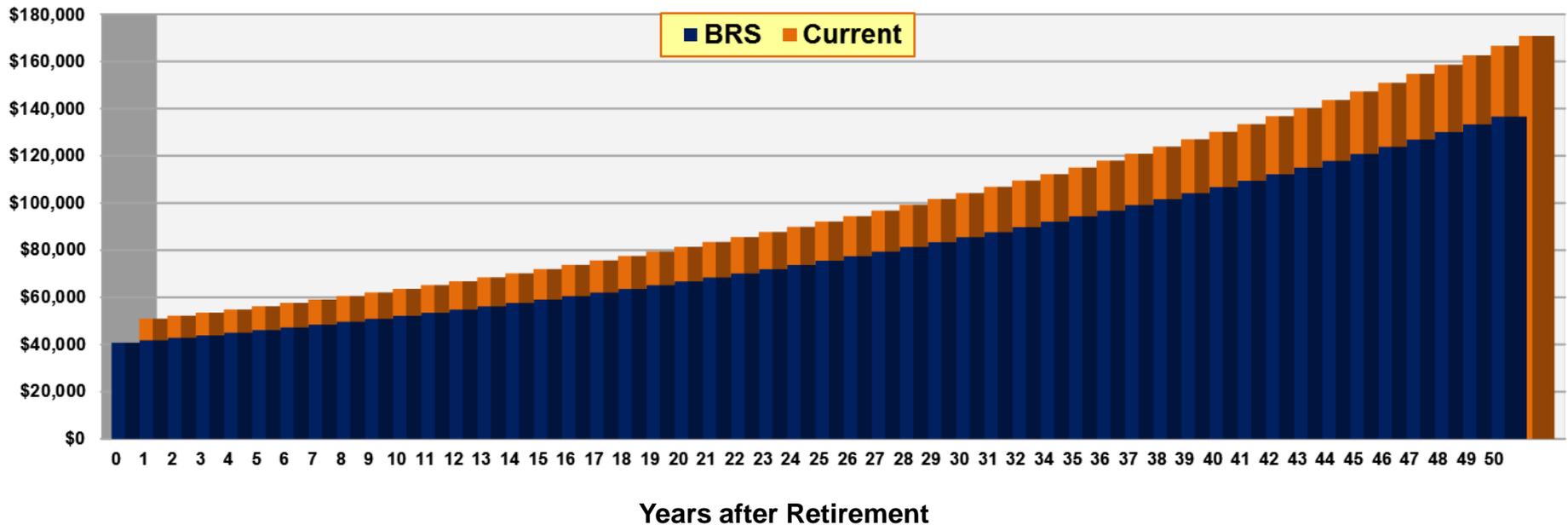
What's The Difference?

What's the match alone worth?



7% avg annual rtn, 5% mbr contribution, 5% DOD match, normal promotion years

Pension with COLA Lifetime Earnings Annual Income

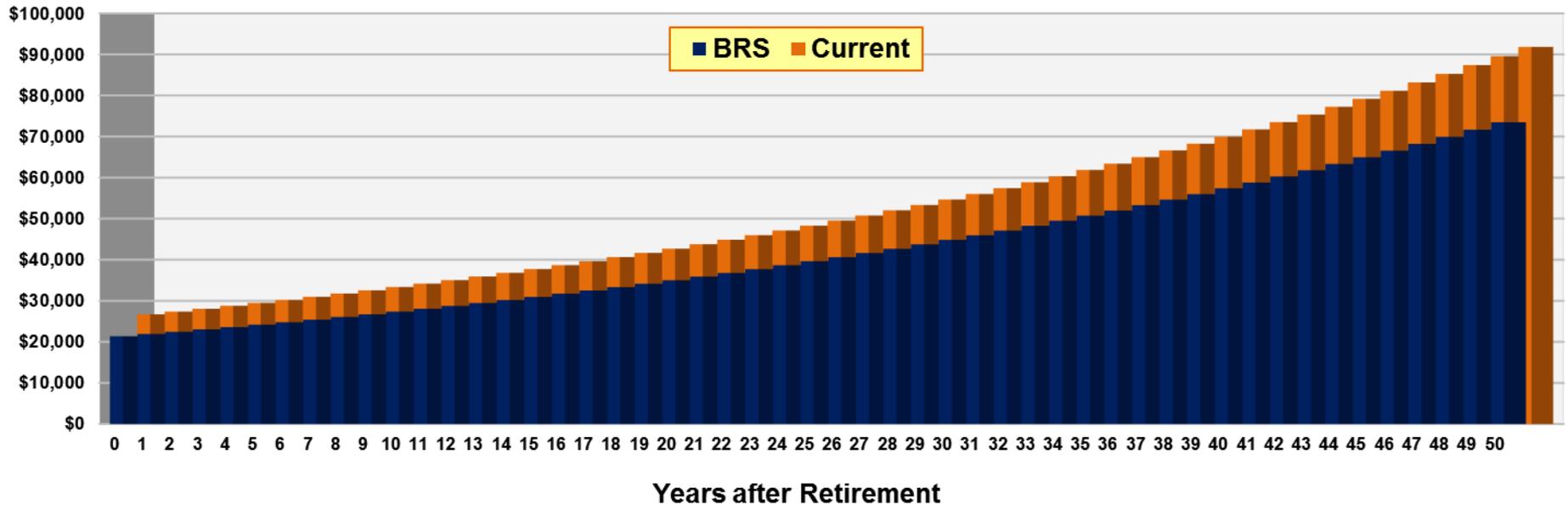


Officer Illustration

Lifetime earnings difference = \$993,000
Consider the Survivor Benefit Program Impacts Also
Delta: \$3,973,000 vs \$4,966,000



Pension with COLA Lifetime Earnings Annual Income



Enlisted Illustration

Lifetime earnings difference = \$539,000
Consider the Survivor Benefit Program Impacts Also
Delta: \$2,157,000 vs \$2,696,000



Making Up the Pension Difference Under the New Program

Current Program Value*:

E7 -- \$289,430

O5 -- \$551,870

—

New Program Value*:

E7 -- \$231,440

O5 -- \$441,500

=

Difference:

E7 -- \$57,990

O5 -- \$110,370

Can the New Match Help Offset the Pension Reduction?

Officer Illustration

Pension PV Delta
\$110,370

Difference between the pension formula: 2.5% vs 2%

Yes

Officer match only
Possibility
\$178,950

Enlisted Illustration

Pension PV Delta
\$57,990

Difference between the pension formula: 2.5% vs 2%

Yes

Enlisted match only
Possibility
\$91,126

To Makeup the Difference in the TSP
20 YOS with 7% return

E7 -- \$111mo

O5 -- \$212mo

It's All About Leaving with Something

So what can you leave with from the DOD after the initial service commitment?

Looking back at the Enlisted Match slide...
Beginning the 4th YOS,
You could accumulate up to \$2975

Looking back at the Officer Match slide...
Beginning the 4th YOS,
You could accumulate up to \$5905

It's not like you can actually take the money...not without tax penalties

The Lump-Sum Retirement Option

Choice is made at retirement

- The law allows a lump sum payment at retirement
- Get lump sum, take decreased monthly income until age 67
- You choose a 25% or 50% lump sum option—**or don't take it**
- DOD is allowed to pay the “present value” (PV) at retirement
 - PV involves a “discount” percentage determined annually by DOD; in 2017 it is 7.3%
 - The “discount rate” makes a big difference in the lump sum amount

The Lump Sum Option

Example of how Present Value calculation works
E7, 20 YOS, \$1736mo, 2.5%COLA, 39-66yo/28yrs

From retirement to age 67 you would collect \$843,500
You can choose between the 25% or 50% lump sum
So you get \$211,000 or \$422,000 right?

Wrong!

When discounted at 7%
(the predicted investment return over the 28 years)

You would get:
25% - \$31,735* 50% - \$63,470*

***By the way, the lump sum is taxable...**

Thrift Savings Plan (TSP)

What can you do when you leave the Service?

Four options:

1. Keep in TSP
2. Roll into your future 401k plan
3. Roll into IRA
4. Pull out of TSP and use the money
 - Don't even think it unless necessary
 - Withdraw Early is costly (prior to age 59½)



Your Future Retirement

Your Success; It's all on **You**

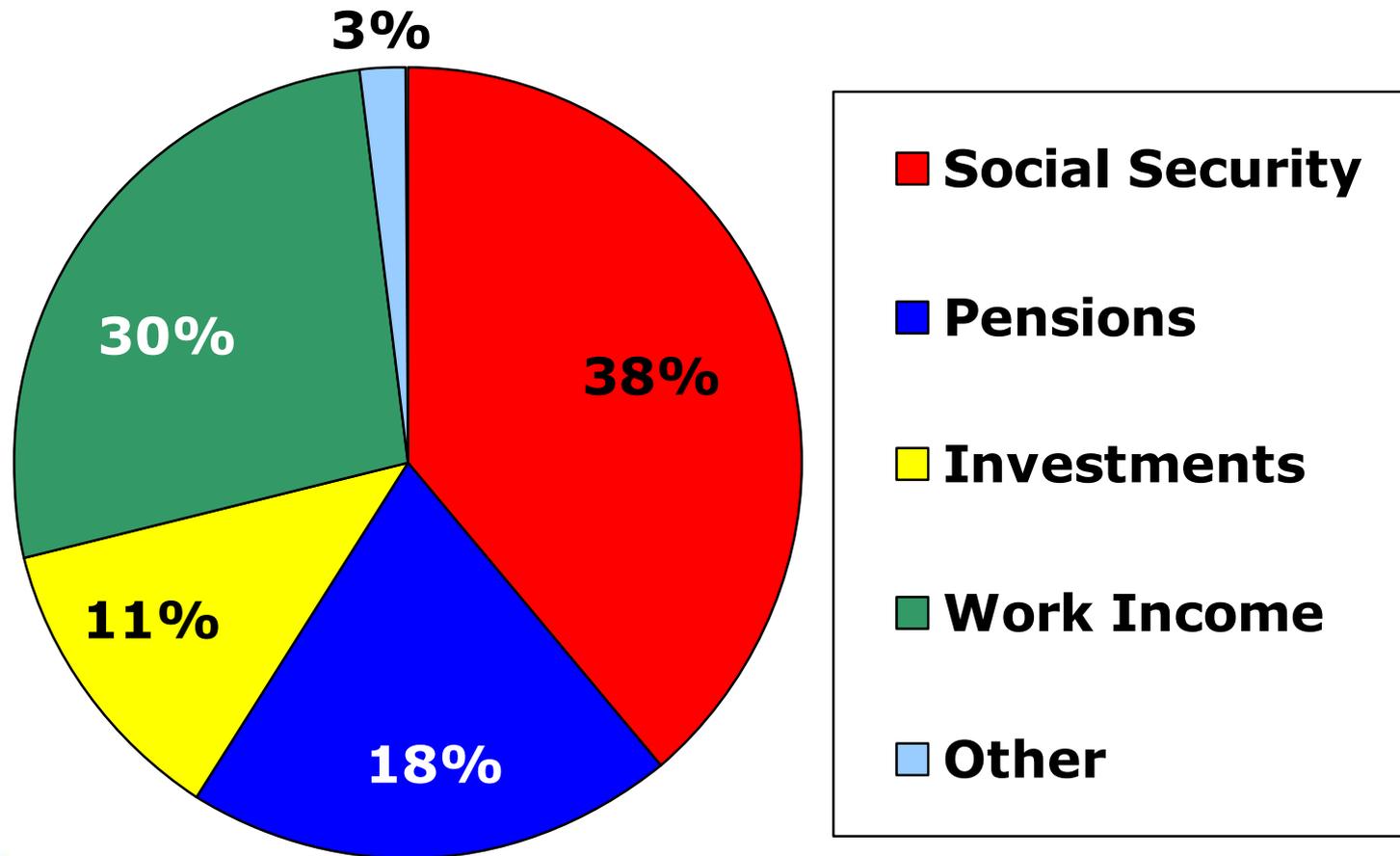


How Much \$\$ Do You Need?

40 Years of Unemployment

- What will your expenses be?
 - Mortgage, cars, travel, health care, college, hobbies, debts, cost of living where you retire, continue to work...
- What will your income be?
 - Sources of income
- How you manage your portfolios will determine how much you can draw per year
 - 3 – 5% per year from portfolios
 - Draw less for conservatively managed portfolios

Today's Seniors—Where Their Retirement Income Comes From



Defined Contribution Plans Thrift Savings Plan (TSP) and 401ks

YOUR PRIMARY INVESTMENT ACCOUNT

Defined-Contribution Plan Contribution Limits

- \$18,000 salary deferral
- \$6,000 “catch-up” provision for age 50+

Your TSP investment options

- C – Large company index fund
- S – Small company index fund
- I – International company index fund
- F – Bond index fund
- G – Stable value fund
- L – Allocation fund by year



Traditional vs. Roth Accounts

What's it all mean?

Annual Amounts

Traditional TSP/401K

Gross Pay	\$60,000
Trad 401k	- <u>\$12,000</u>
Taxable income	\$48,000
Taxes 20%	- <u>\$9,600</u>
Take Home Pay	\$38,400

Roth TSP/401K

Gross Pay	\$60,000
Taxes 20%	- <u>\$12,000</u>
Net Pay	\$48,000
Roth 401k	- <u>\$12,000</u>
Take Home Pay	\$36,000

Take home pay \$2400 less with Roth
However...tax-free retirement income

IRAs in 2017

Contributions and Deductions

<u>IRA</u>	<u>Contribution Limit##</u>	<u>MAGI Phase-out</u>
Traditional	\$5,500 + \$1,000 Catch-up for age 50+	DEDUCTION@ \$62-72k Single \$99-119k** Married
Roth	Same	PROHIBITION \$118-133k Single \$186-196k Married
Spousal (Traditional or Roth)	Same	DEDUCTION (Traditional rules apply) OR PROHIBITION (Roth rules apply)

Of "earned income."

** MAGI if both taxpayers are **covered by an employer plan** OR for the spouse who has the employer plan. If only one spouse has an employer plan, phase out is \$186k-196k for the non-employer plan member.

@ There is **NO deduction phase-out** for Trad IRA if filing single, or married, and **no one has an employer plan**. See IRS Pub 590 for details!

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