



September 2019

# MILITARY PENSIONS

## Servicemembers Need Better Information to Support Retirement Savings Decisions

## Why GAO Did This Study

DOD's new retirement system, BRS, provides automatic and matching DOD contributions to servicemembers' individual Thrift Savings Plan accounts but reduces the retirement annuity paid to those who serve at least 20 years. BRS also offers servicemembers the option of taking part of their retirement annuity as a lump-sum payment.

GAO was asked to describe DOD's financial education efforts under BRS. This report examines (1) actions DOD has taken to help servicemembers understand BRS and saving for retirement, (2) what DOD can learn from financial literacy training effective practices and its implementation of BRS training to continue supporting servicemembers in saving for retirement, and (3) how BRS lump-sum payment amounts are determined.

GAO reviewed DOD's efforts to educate servicemembers on retirement decisions, conducted group interviews with senior officers and enlisted servicemembers at five military installations on facilitating the rollout of BRS training to junior servicemembers, and created a lump-sum payment calculator to compare different calculation methods and assumptions on the value of the lump-sum payment.

## What GAO Recommends

GAO recommends 1) DOD assess its course evaluations to improve its financial literacy training on retirement for servicemembers, 2) DOD provide key information on the calculation of retirement lump-sum payments, and 3) Federal Retirement Thrift Investment Board explore alternatives for servicemembers to receive their TSP passwords. Both agencies agreed with their respective recommendations.

View [GAO-19-631](#). For more information, contact Charles A. Jeszeck at (202) 512-7215 or [jeszeckc@gao.gov](mailto:jeszeckc@gao.gov); or Frank Todisco at (202) 512-2700 or [todiscof@gao.gov](mailto:todiscof@gao.gov).

## MILITARY PENSIONS

### Servicemembers Need Better Information to Support Retirement Savings Decisions

#### What GAO Found

In 2016, the Department of Defense (DOD), along with the military service branches, began a multi-year effort to provide training to help servicemembers make informed decisions about saving for retirement through DOD's new retirement system, the Blended Retirement System (BRS). DOD provided computer-based training to help military supervisors, financial counselors, and eligible servicemembers understand the new retirement system, implemented in 2018, and its impact on saving for retirement. DOD trained financial counselors to provide servicemembers in-person, one-on-one financial counseling and classroom courses on BRS and related topics. In addition, DOD prepared ongoing financial literacy training that servicemembers will take upon reaching specific career and life stages.

BRS trainings met many of the effective practices for financial literacy training identified in prior GAO work, but some DOD trainings do not incorporate the practice of assessing servicemembers' financial literacy. DOD could use such assessments to modify course material to bolster training in areas where servicemembers' comprehension was weaker. Without assessing whether its financial literacy training is effectively conveying course information, DOD may be missing opportunities to better support servicemembers' retirement decisions. Servicemembers also reported challenges in taking the Opt-In Course for BRS that may inform ongoing and future DOD training.

#### Examples of Servicemembers' Financial Literacy Challenges on Retirement

- understanding the training due to a low initial level of financial literacy
- relating to long-term goals of retirement due to short-term life goals
- setting up online access to Thrift Savings Plan accounts

Source: GAO interviews with military supervisors and financial educators at five military installations. | GAO-19-631

DOD determines BRS lump-sum payment amounts at retirement by applying an interest rate (or discount rate) to calculate the present value of annuity payments servicemembers forego by taking a lump sum. The BRS discount rate exceeds the rate used by private-sector pension plans, resulting in a lower lump sum than if private-sector rates applied. DOD can take certain steps to help servicemembers understand how to compare the BRS lump-sum payment option with the full annuity option. Without this information, servicemembers may not make informed decisions and potentially risk their retirement savings.

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## Abbreviations

BRS	Blended Retirement System
CBO	Congressional Budget Office
CFPB	Consumer Financial Protection Bureau
COLA	cost-of-living adjustment
DB	defined benefit
DC	defined contribution
DROP	deferred retirement option provision
DOD	Department of Defense
ERISA	Employee Retirement Income Security Act of 1974
FERS	Federal Employees Retirement System
FRA	full retirement age
FRTIB	Federal Retirement Thrift Investment Board
GDR	Government Discount Rate
IDA	Institute for Defense Analyses
IRS	Internal Revenue Service
MCRMC	Military Compensation and Retirement Modernization Commission
NDA	National Defense Authorization Act
PFC	Personal Financial Counselor
PFM	Personal Financial Manager
ROTC	Reserve Officer Training Corps
TSP	Thrift Savings Plan
USAA	United Services Automobile Association

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September 19, 2019

The Honorable Richard J. Durbin  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Patty Murray  
Ranking Member  
Committee on Health, Education, Labor, and Pensions  
United States Senate

The military retirement system traditionally offered only a defined benefit (DB) annuity, providing regular monthly payments for life based on military earnings and years of service.<sup>1</sup> However, under this legacy retirement system, only 19 percent of active-duty servicemembers who entered in fiscal year 2013 are estimated to complete the minimum 20 years of service required to receive the DB annuity.<sup>2</sup> The National Defense Authorization Act (NDAA) for Fiscal Year 2016 included provisions that created a new military retirement system. This Blended Retirement System (BRS) offers a new defined contribution (DC) benefit in the form of an employer contribution to a personal Thrift Savings Plan (TSP) account that will provide some retirement compensation for a large majority of servicemembers, including those who serve less than 20 years; however, it also reduces the DB annuity paid to those who serve 20 years or more.<sup>3</sup> The Department of Defense (DOD) estimates that full implementation of BRS will reduce its annual budget costs by \$1.4 billion

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<sup>1</sup>A defined benefit (DB) plan is an employer-sponsored retirement plan that typically provides a benefit for the life of the participant, based on a formula specified in the plan that takes into account factors such as an employee's salary history and years of service.

<sup>2</sup>Under the legacy retirement system, only 17 percent of enlisted servicemembers and 49 percent of officers earned a retirement benefit by completing the required minimum 20 years of service, as estimated at 1 year of service for new servicemember entrants who began in fiscal year 2013. Department of Defense (DOD), *Valuation of the Military Retirement System, September 30, 2012* (Washington, D.C.: April 2014).

<sup>3</sup>See Pub. L. No. 114-92, §§ 631-635, 129 Stat. 726, 842-52.

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compared to the legacy retirement system, in 2016 dollars.<sup>4</sup> Active-duty servicemembers with fewer than 12 years of military service as of December 31, 2017 were given the 2018 calendar year to make an irrevocable decision on whether to opt into BRS or remain in the legacy retirement system.<sup>5</sup> Starting January 1, 2018, all new military personnel were automatically enrolled in BRS.

BRS's shift toward DC benefits means that servicemembers covered by BRS will have more of their retirement security dependent on their financial decisions, including how much to contribute to their TSP account, how to invest their TSP balance, and how to manage their savings upon military retirement. Additionally, for those who complete at least 20 years of service, BRS offers the option to take some of their DB annuity as a lump-sum payment. DOD and the military service branches provide some financial education to servicemembers, but concerns exist about whether servicemembers are able to make the informed decisions about their retirement required by BRS.

You asked us to review how DOD was helping servicemembers make decisions about their retirement. In this report, we examine (1) what actions DOD has taken to help servicemembers understand BRS and, more generally, educate servicemembers on saving for retirement; (2) what DOD can learn from financial literacy training effective practices and the implementation of BRS training to continue supporting servicemembers in saving for retirement; and (3) how lump-sum payment amounts are determined under BRS and how they compare to the methods used by the private-sector pension plans that offer them.

To answer these questions, we conducted interviews with officials from the DOD, the Federal Retirement Thrift Investment Board (FRTIB), and the Consumer Financial Protection Bureau (CFPB). We also conducted group interviews with senior officers and enlisted servicemembers at five military installations. Though these interviews did not yield information

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<sup>4</sup>DOD's savings estimates are projected in the "steady state," which represents the point in the future when all servicemembers are covered under the Blended Retirement System (BRS).

<sup>5</sup>All servicemembers in a pay status in the National Guard or Reserve with fewer than 4,320 retirement points as of December 31, 2017 were also eligible to opt into BRS. Reservists' retirement eligibility and benefits are not based on years of service but on retirement points, which they earn by participating in various military activities, such as active service, drills, or taking qualifying military correspondence courses.

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that was generalizable to all senior officers and enlisted servicemembers, they did provide insight into their experiences facilitating the rollout of BRS training to junior servicemembers. Finally, we reviewed and compared DOD's financial literacy trainings to the financial literacy training effective practices published in a prior GAO report.<sup>6</sup> To understand how BRS lump-sum payments are determined, we reviewed DOD documents and relevant federal law. We also interviewed DOD officials to understand what issues they considered when designing BRS's lump-sum feature, how DOD determines the discount rate, or interest rate, that it uses for lump-sum payments, and how the rate relates to personal discount rates, which derive from research on observed choices people make between receiving certain sums of money in the future versus receiving smaller sums sooner. We interviewed stakeholders knowledgeable about other pension plans to understand how the discount rate in BRS differs from the discount rate used by those plans. We also created a lump-sum payment calculator to run simulations of various lump-sum calculations—including those used in the private sector as required by the Employee Retirement Income Security Act of 1974, as amended (ERISA)—to show the effect of different calculation methods and assumptions on the value of the lump-sum payment.<sup>7</sup>

We conducted this performance audit from March 2018 to September 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>6</sup>GAO, *Financial Literacy: The Role of the Workplace*, [GAO-15-639SP](#) (Washington, D.C.: July 2015). See appendix I for more information on how GAO selected these financial literacy training effective practices from our prior work.

<sup>7</sup>See Pub. L. No. 93-406, 88 Stat. 829. Among other things, the Employee Retirement Income Security Act of 1974, as amended (ERISA), establishes certain requirements and minimum standards for most private-sector retirement plans and is the federal statute that sets standards for determining minimum lump-sum payments for private-sector pension plans that offer them.



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## Background

### Legacy Retirement System

The military retirement system is a government-funded benefit system that has historically been considered a significant incentive in recruiting and retaining a voluntary, career military force. Until recently, almost all active-duty servicemembers were enrolled in the High-3 (legacy) retirement system. In this system, servicemembers who served at least 20 years earned a DB annuity. Those who were eligible earned 2.5 percentage points per year of service multiplied by the average of their highest 36 months of basic pay, with payments beginning upon retirement from the military and adjusted annually for inflation.<sup>8</sup> Servicemembers also had the option to contribute a portion of their basic pay to a personal TSP account, but DOD provided no contributions.<sup>9</sup>

A previous GAO report found that active-duty servicemembers' rate of reaching 20 years of service varied substantially among the military service branches (see fig. 1).<sup>10</sup> For example, for active-duty servicemembers entering military service in 1992, the estimated probability of reaching 20 years of service was almost 15 percentage points higher—and more than three times higher—for the Air Force than the Marine Corps.

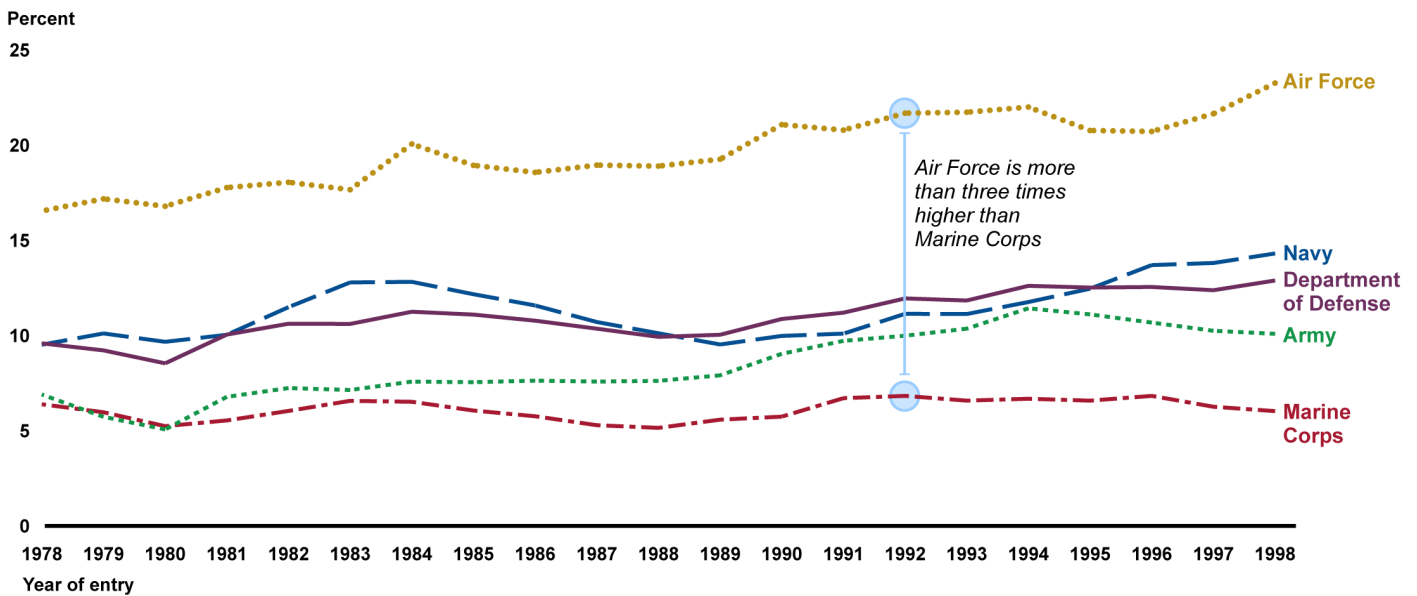
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<sup>8</sup>The 36 months of highest pay need not be consecutive.

<sup>9</sup>Servicemembers became eligible to enroll in the Thrift Savings Plan (TSP) on October 9, 2001. According to Federal Retirement Thrift Investment Board (FRTIB) officials, about 1.3 million servicemembers in the legacy retirement system and 450,000 servicemembers in BRS had TSP accounts as of December 31, 2018. These numbers include both active and separated servicemembers.

<sup>10</sup>GAO, *Military Retirement: Service Contributions Do Not Reflect Service Specific Estimated Costs and Full Effect of Proposed Legislation is Unknown*, [GAO-19-195R](#) (Washington, D.C.: Dec. 4, 2018).

**Figure 1: Active Component Historical Estimated Probabilities of Reaching 20 Years of Service, by Entrance Cohort**



Source: GAO analysis of Department of Defense data, based on servicemembers having completed 1 year of service. | GAO-19-631

Note: The Department of Defense (DOD) line represents a weighted average of total retirees. The 1998 entrants reached 20 years of service in 2018.

Federal law established the Military Compensation and Retirement Modernization Commission (MCRMC) in the NDAA for Fiscal Year 2013 to study the military’s compensation system in detail and make recommendations to modernize servicemembers’ pay and benefits.<sup>11</sup> The MCRMC’s final report, released in January 2015, recommended that Congress revise the military retirement system so DOD could help more servicemembers save for retirement earlier in their careers, leverage the retention power of the legacy retirement system, give the services greater flexibility to retain quality people in demanding career fields, and promote servicemembers’ financial literacy, among other things.<sup>12</sup>

<sup>11</sup>See Pub. L. No. 112-239, sub. H, §§ 671-680, 126 Stat. 1632, 1787-95.

<sup>12</sup>Military Compensation and Retirement Modernization Commission (MCRMC), *Report of the Military Compensation and Retirement Modernization Commission: Final Report* (Jan. 29, 2015).

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## Blended Retirement System (BRS)

The NDAA for Fiscal Year 2016 established BRS to replace the legacy retirement system. As with the legacy retirement system, servicemembers in BRS must serve 20 years to receive a DB annuity. Under BRS, eligible retirees receive a DB monthly benefit equal to 2 percentage points per year of service multiplied by the average of a servicemember's highest 36 months of basic pay—lower than the 2.5 percentage point multiplier under the legacy retirement system. BRS also provides servicemembers with DC benefits through an employer contribution, which did not exist in the legacy retirement system. For servicemembers who began their service on or after January 1, 2018, DOD automatically contributes 1 percent of a servicemember's basic pay into the individual's TSP account after 60 days of service and, after 2 years of service, matches a servicemember's contributions up to 4 percent of their basic pay, for a maximum military contribution of 5 percent of a servicemember's basic pay.<sup>13</sup> These servicemembers are automatically enrolled in BRS at a 3 percent default contribution rate.<sup>14</sup> DOD estimates that with automatic enrollment in TSP and the automatic government contribution, 85 percent of new servicemembers covered by BRS will receive at least some retirement benefits when they leave military service.<sup>15</sup>

BRS offers servicemembers some additional features and benefits not offered under the legacy retirement system. Servicemembers under BRS

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<sup>13</sup>Servicemembers who opted into BRS prior to January 1, 2018 were eligible for automatic and matching contributions beginning with the first pay period that started on or after the day the servicemember opted into BRS regardless of his or her accrued service to that point, including those with fewer than 2 years of service. Under BRS, DOD matches the total amount of servicemember contributions up to 3 percent of their basic pay and half the amount of servicemember contributions above 3 percent and up to 5 percent of their basic pay. So with the automatic 1 percent employer contribution, a servicemember contributing 5 percent of their basic pay will receive the maximum 5 percent DOD contribution.

<sup>14</sup>Provisions in BRS related to TSP largely mirror the design of the defined contribution portion of the Federal Employees Retirement System (FERS), the primary retirement plan for currently employed civilian federal workers, with a few key differences. Under FERS, civilian federal workers can begin receiving automatic and matching employer contributions immediately; under BRS, servicemembers wait 60 days and 2 years, respectively, for these employer contributions. Most civilian federal workers in FERS vest in employer automatic contributions after 3 years of service. In contrast, servicemembers in BRS vest in automatic DOD contributions after 2 years of service.

<sup>15</sup>DOD estimates 15 percent of servicemembers will not receive any government retirement benefits under BRS because they will leave the military before vesting in the 1 percent agency automatic contribution.

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are eligible for a one-time continuation payment as a retention incentive at the servicemember's mid-career point, between 8 and 12 years of service. Servicemembers who accept the continuation benefit incur an additional service obligation.<sup>16</sup> BRS also offers servicemembers who serve 20 years or more the option to convert the present-value equivalent of either 25 or 50 percent of their DB annuity payments for the period from their date of retirement until the date they reach their Social Security full retirement age (FRA) to a lump-sum payment upon retirement from the military. Taking this lump-sum payment would reduce the retiree's annuity payments only until he or she reaches FRA, after which the annuity payments would revert to the full benefit level (see fig. 2).

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<sup>16</sup>Calculations for this benefit differ for active and reserve component members and by individual. For active-duty servicemembers, the amount of continuation pay can range from 2.5 to 13 times a servicemember's monthly basic pay, with an additional service commitment of at least 3 years. Servicemembers under the legacy retirement system are not eligible to receive continuation pay.

**Figure 2: Comparison of Military Retirement Systems**

Category	Legacy Retirement System	Blended Retirement System (BRS)
Defined benefit (DB)	✓ Yes 20 or more years of service	✓ Yes 20 or more years of service
DB multiplier	2.5% per year of service X average of highest 36 months of basic pay	2% per year of service X average of highest 36 months of basic pay
Monthly DB annuity if retirement at 20 years of service	50% of average of highest 36 months of basic pay	40% of average of highest 36 months of basic pay
Monthly DB annuity indexed to inflation	✓ Yes	✓ Yes
Participants can contribute to Thrift Savings Plan (TSP)	✓ Yes	✓ Yes
Employer contribution to TSP	✗ No	✓ Yes 1% automatic contribution + up to 4% matching of participant's contributions
One-time continuation incentive	✗ No	✓ Yes from 8 to 12 years of service with 3-year service obligation, minimum
Lump-sum payment option	✗ No	✓ Yes option of lump-sum payment in exchange for reduced DB annuity (25 or 50 percent) until age 67, discounted for present value

Source: GAO analysis of Department of Defense data. | GAO-19-631

Active-duty servicemembers with fewer than 12 years of service as of December 31, 2017 were eligible to enroll in BRS until December 31, 2018. The decision to opt in to BRS or remain in the legacy retirement system was irrevocable.

## Financial Literacy Education Training

Compared to the legacy retirement system, which provided only a DB plan, the BRS's enhanced DC benefit and reduced DB annuity shifts more of the responsibility for managing servicemembers' retirement security from DOD to servicemembers. To help ensure that servicemembers have the financial literacy to make sound financial decisions, the NDAA for Fiscal Year 2016 added a requirement for DOD

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to provide servicemembers ongoing financial literacy training at various career and life stages, including at initial entry, promotions, vesting in the TSP, eligibility for continuation pay, marriage, divorce, and the birth of a first child.<sup>17</sup> GAO's prior work on financial literacy training compiled testimony from experts from the private sector, federal government agencies, nongovernmental organizations, and academic institutions to:

- define financial literacy as the ability to use knowledge and skills to manage financial resources effectively for a lifetime of well-being;
- identify the workplace as a particularly effective venue for providing financial education and helping individuals improve their financial decision making; and
- summarize the effectiveness of various interventions and how to address the needs of workplace populations traditionally underserved by financial education.<sup>18</sup>

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<sup>17</sup>DOD is required to provide financial literacy training to servicemembers at the following career stages: initial entry training, arrival at the first and subsequent duty stations (in the case of servicemembers in pay grade E-4 or below or in pay grade O-3 or below), promotion (in the case of servicemembers in pay grade E-5 or below or in pay grade O-4 or below), vesting in the TSP, eligibility to receive continuation pay, leadership training, pre- and post-deployment training, at transition from a regular component to a reserve component, separation from service, retirement, and as a component of periodically recurring required training provided at a military installation. DOD is also required to provide financial literacy training to servicemembers at the following life stages: marriage, divorce, birth of first child, or disabling sickness or condition.

<sup>18</sup>See GAO, *Financial Literacy: A Federal Certification Process for Providers Would Pose Challenges*, [GAO-11-614](#) (Washington, D.C.: June 28, 2011); and [GAO-15-639SP](#).

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## DOD Used a Multi-Faceted Approach to Implement BRS Training and Outreach Campaigns and Is Developing Continuing Education on Saving for Retirement

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### DOD Administered BRS Education and Outreach Campaigns for Eligible Servicemembers

DOD developed three courses to help servicemembers make informed decisions about whether to opt in to BRS or remain in the legacy retirement system.<sup>19</sup> The BRS Opt-In Course was available as a 2-hour online or in-person course that servicemembers had to attest they had completed before opting into the new retirement system. DOD reported that 91 percent of an estimated 1.7 million eligible servicemembers attested that they had completed the training during the BRS opt-in period.<sup>20</sup> The course included information on (1) the importance of saving for retirement, (2) the differences between the legacy retirement system and BRS, (3) factors for servicemembers to consider in choosing between the two retirement systems, and (4) tools and resources for

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<sup>19</sup>To comply with the requirement of the NDAA for Fiscal Year 2016 that all eligible servicemembers be able to opt into BRS beginning on January 1, 2018, DOD was required to provide Congress a BRS implementation plan by March 1, 2016. In accordance with that plan, DOD developed and released the BRS Leaders Course in June 2016, the BRS Personal Financial Managers (PFM) Course in September 2016, the BRS Opt-In Course in January 2017, and the New Accession Course in January 2018. The BRS opt-in window opened on January 1, 2018 and closed on December 31, 2018. DOD released ongoing financial literacy guidance in August 2019.

<sup>20</sup>According to DOD officials, servicemembers who did not complete the BRS Opt-In Course include those in the Reserve Officer Training Corps (ROTC) and the military academies who were not required to make a BRS opt-in decision until they finished their training, those who left the service before the BRS opt-in window closed, and those who were unable to complete the training for a variety of operational reasons.

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servicemembers to consult when making their opt-in decision.<sup>21</sup> DOD developed two additional BRS trainings for key military personnel in an effort to expand the network of in-person resources available to servicemembers eligible to opt into BRS. One course provided installation-level financial management professionals—Personal Financial Managers (PFMs) and Personal Financial Counselors (PFCs)—with more detailed information to reinforce the BRS Opt-In Course curriculum for servicemembers and answer their specific questions about BRS.<sup>22</sup> The other course provided optional training to military supervisors regardless of their eligibility to opt into BRS.<sup>23</sup> DOD officials said it was important to educate military supervisors on BRS since many junior servicemembers discuss personal financial information with their direct supervisors. DOD officials said that the agency released both of these trainings in advance of the BRS Opt-In Course so that PFMs and supervisors would have time to understand the new system and prepare for questions from servicemembers.

DOD also developed the BRS New Accession Course for servicemembers who entered the military on or after January 1, 2018 and who are automatically enrolled in BRS. (See fig. 3.) Servicemembers take this course when entering service as part of their mandatory basic training (“boot camp”) or at the first school they attend after basic training. This course explains BRS’s key components, identifies the tools and

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<sup>21</sup>According to DOD officials, the agency convened training development working groups, which included experts in the fields of finance, financial education, military pay policy, and training and curriculum development, to develop the BRS Opt-In Course and its associated materials. These working groups tested the BRS Opt-In Course with servicemember focus groups before it received final approval by the BRS Executive Work Group, an oversight panel. According to DOD officials, the BRS New Accession Course—the BRS training for new servicemembers who joined on or after January 1, 2018—went through similar development and testing processes.

<sup>22</sup>Federal law requires that installations with at least 2,000 active-duty members provide services via a full-time financial services counselor, which DOD staffs with Personal Financial Managers (PFMs). See 10 U.S.C. § 992(b). According to DOD officials, installations with fewer than 2,000 active-duty members can provide financial counselling services in a variety of ways, including by using uniformed personnel, part-time personnel, and contractors. DOD centrally contracts Personal Financial Counselors (PFCs) to provide important support to smaller locations, fulfill the financial needs of fluctuating Guard and Reserve populations, and provide support to recruiters and other populations not stationed at military installations. PFMs and PFCs have a bachelor’s degree, a nationally recognized counseling certification, and familiarity with the military environment.

<sup>23</sup>According to DOD officials, DOD intended that any officers or enlisted servicemembers who saw themselves as a leader would take the BRS Leaders Course so they could speak knowledgeably about the new retirement system to their subordinates.





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trainings as well as to provide servicemembers in-person financial literacy education. DOD officials said that the agency employs at least one PFM at most military installations or uses PFCs, who are government contractors. DOD officials said that PFMs and PFCs travel as needed to provide support at multiple installations. One PFM we interviewed estimated that PFMs provide as many as 10 group presentations per week on retirement issues that they tailor to fit their audiences' needs. Another said one-on-one counseling sessions allowed servicemembers to share their personal financial situations, receive information germane to their unique circumstances, and explore available tools and resources. DOD officials said that, as outlined in federal statute, the role of PFMs and PFCs is to educate servicemembers about financial options available to them and not to provide financial advice.<sup>24</sup>

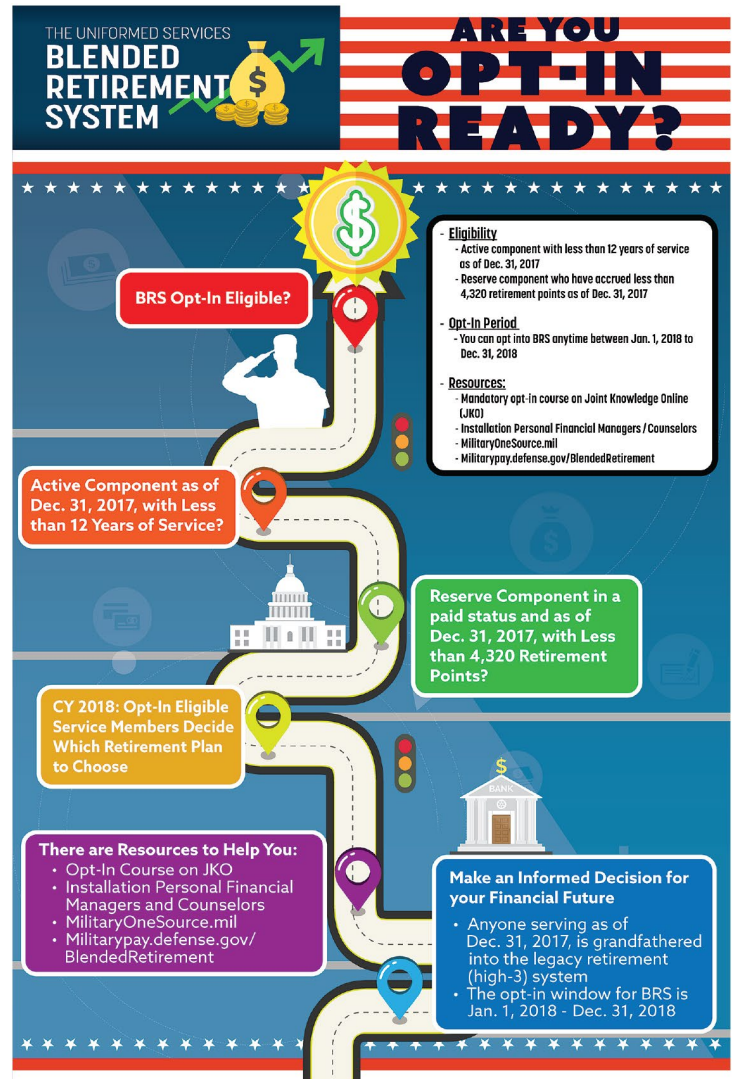
In addition to the centralized trainings and resources DOD created, the service branches used their internal communication systems for BRS outreach campaigns and created additional training tailored to the needs of their servicemembers (see fig. 4). For example, according to Navy officials, during the final 6 months of the BRS opt-in period, the Navy posted approximately 80 Facebook and Twitter posts to its accounts, with many of these reminding servicemembers of their opt-in choice. The posts linked to additional resources and advertised outreach like the Navy's Facebook Live event, which utilized social media to provide servicemembers online access to financial experts who could answer their retirement-related questions. Military supervisors also said that most of the service branches sent targeted communications to supervisors to remind eligible servicemembers at regular meetings to complete the BRS Opt-In Course. The service branches also created supplemental BRS trainings tailored to meet their servicemembers' needs. For example, the Marine Corps developed a classroom-based BRS training that included specific instructions on how to use the Marines' data systems to make BRS decisions, as well as statistics on the average percentage of Marines that complete 20 years of service.<sup>25</sup>

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<sup>24</sup>See 10 U.S.C. § 992(b).

<sup>25</sup>According to Marine Corps data, as of February 17, 2017, only 7 percent of enlisted Marines and 32 percent of Marine officers completed the 20 years of active-duty service required to become eligible for non-disability retirement benefits under the legacy retirement system.

Figure 4: Examples of Department of Defense (DOD) and Military Service Branches Blended Retirement System (BRS) Outreach Campaigns



Source: Department of the Navy (top left) and the Department of Defense. | GAO-19-631

## DOD Is Developing Continuing Financial Literacy Education for Servicemembers on BRS and on Saving for Retirement

With all incoming servicemembers automatically enrolled in BRS as of January 1, 2018, DOD officials said the agency has shifted its continuing financial literacy training from the opt-in decision to saving for retirement. As with the BRS training, the military provides continuing financial literacy education through both DOD and the service branches. DOD's Office of Financial Readiness provides policy, education, advocacy, and program oversight to promote servicemembers' financial readiness. While DOD developed the BRS trainings and conducted outreach, DOD officials said

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that the service branches have the primary responsibility for developing and providing servicemembers continuing financial literacy education, including on saving for retirement, based on their own resources and their servicemembers' needs. The service branches use a variety of formats (see fig. 5).

DOD is also developing a plan to provide continuing financial literacy education to servicemembers at various career and life stages. DOD officials said the agency plans to improve the consistency of the continuing financial literacy education provided by the service branches and consolidate it so it is delivered at the career and life stages specified by the NDAA for Fiscal Year 2016. DOD's Office of Financial Readiness released guidance in August 2019 to provide the service branches a common set of learning objectives for financial literacy education aligned with these specific career and life stages. DOD officials told us that the service branches are responsible for delivering the continuing financial literacy education to servicemembers at these stages according to their schedules and resources.

**Figure 5: Examples of the Military Service Branches' Continuing Efforts on Financial Literacy Education about Retirement for Servicemembers**

Type of support	Examples
<b>In-person training</b>	<ul style="list-style-type: none"> <li>The Marine Corps offered an instructor-led Blended Retirement System (BRS) opt-in training to supplement the Department of Defense's (DOD) computer-based BRS Opt-In Course. The training was intended to provide servicemembers a foundational understanding of BRS.</li> <li>The Air Force's How to Become a Millionaire course covers a range of topics, including how to save and invest for retirement, and is presented by a certified subject matter expert.</li> </ul>
<b>Online training</b>	<ul style="list-style-type: none"> <li>The Navy offers its Million Dollar Sailor course in-person and online. The goal of the course is to improve servicemembers' personal financial growth and fitness by targeting challenges prevalent with Navy personnel (e.g., security clearance and credit management issues).</li> <li>The Army offers online training on Financial Readiness and Financial Planning for Retirement. The training is intended to help servicemembers manage their money wisely and effectively. The Financial Readiness training is geared toward junior servicemembers.</li> </ul>
<b>Mobile applications</b>	<ul style="list-style-type: none"> <li>The Navy's Financial Literacy Mobile Application provides servicemembers information on how to achieve their personal financial goals and meet the Navy's financial literacy education requirements.</li> </ul>
<b>Spouse and family member training</b>	<ul style="list-style-type: none"> <li>The Marine Corps offers in-person retirement planning training for servicemembers' family members. The 2-hour training introduces the basic concepts of retirement planning and includes sections on BRS and the legacy retirement system.</li> <li>The Air Force provides personalized financial counseling services for servicemembers and their spouses.</li> </ul>
<b>Outreach and communication to servicemembers during the BRS opt-in window</b>	<ul style="list-style-type: none"> <li>The Army held a financial readiness Twitter chat to connect U.S. Securities and Exchange Commission members directly with servicemembers.</li> <li>The Army published multiple online news articles about BRS throughout 2017 and 2018.</li> <li>The Marine Corps targeted monthly email messages specifically to servicemembers who had opted into BRS but were not contributing anything to their TSP accounts to remind them to increase their TSP contribution rate.</li> </ul>
<b>Outreach and communication to servicemembers on saving for retirement</b>	<ul style="list-style-type: none"> <li>The Air Force publicizes information on retirement planning during established financial literacy campaigns, such as Financial Literacy Month, Military Saves Week, and National Retirement Planning Month.</li> </ul>

Source: GAO analysis of Department of Defense and the service branches' documents and training materials. | GAO-19-631

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## DOD Training Reflected Many Financial Literacy Effective Practices, but Servicemembers' Challenges Can Inform Future Training Efforts

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### BRS Training Met Many Financial Literacy Effective Practices, but DOD Did Not Use Course Assessments to Improve Content

We found that DOD's Blended Retirement System (BRS) trainings met many established financial literacy training effective practices (see sidebar on next page and table 1).<sup>26</sup> However, lack of assessments of some courses affected DOD's ability to measure how well the courses helped participants and to make any needed changes.

Financial education experts have found that financial literacy trainings that meet effective practices can improve employees' overall financial wellness. These experts identified the workplace as a particularly effective venue for providing financial education and helping individuals improve their financial decision making because employers have the potential to reach large numbers of adults in a cost-effective manner at a place where they make important financial decisions.

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<sup>26</sup>We selected the financial literacy training effective practices that were useful to DOD's BRS trainings from a prior report, [GAO-15-639SP](#). In that report, we convened a forum of financial literacy training experts in the private, non-profit, and government sectors to discuss the role of financial literacy education in the workplace. See appendix I for more information on how we selected these financial literacy effective practices from this report.

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### **Effective Financial Literacy Training Practices**

**Information is unbiased:** Employers' financial literacy education programs should provide financial information that avoids even the appearance of conflicts of interest.

**Links to one-on-one financial help:** Programs should provide access to one-on-one financial coaches who can help employees understand and take action on their priorities.

**Leverages trusted messengers:** Programs should use trusted coworkers and other peers to provide or facilitate assistance on financial matters.

**Assesses employees' financial literacy to provide assistance and help set priorities:** Programs should periodically assess employees' financial situations and goals to pinpoint how best to provide assistance and help employees set priorities.

**Enables employees to take action directly from the course:** Programs should provide employees the means, for example, through direct links or forms provided in the course, to convert knowledge to financial action.

Source: GAO, Financial Literacy: The Role of the Workplace, [GAO-15-639SP](#) (Washington, D.C.: July 2015). | GAO-19-631

According to DOD officials, servicemembers will make more financial decisions that may impact their ability to successfully save for retirement under BRS than under the legacy retirement system, which makes providing effective financial literacy training to servicemembers particularly important. We found that all of DOD's BRS trainings met the applicable financial literacy effective practices of presenting unbiased information, directing servicemembers to options for one-on-one financial help, and employing trusted messengers—such as military peers and Personal Financial Managers (PFMs)—to deliver the course information. For example, each of the applicable BRS trainings encouraged servicemembers to work with PFMs to understand how their personal financial circumstances impact saving for retirement.

**Table 1: GAO Assessment of Department of Defense’s (DOD) Blended Retirement System (BRS) Training Courses**

	<b>BRS Leaders Course</b>	<b>Financial Counselors and Educators BRS Course</b>	<b>BRS Opt-In Course</b>	<b>BRS New Accession Course</b>
Information is unbiased: Employers’ financial literacy education programs should provide financial information that avoids even the appearance of conflicts of interest.	✓	✓	✓	✓
Links to one-on-one financial help: Programs should include access to one-on-one financial coaches who can help employees understand and take action on their priorities.	✓	N/A	✓	✓
Leverages trusted messengers: Programs should use trusted coworkers and other peers to provide or facilitate assistance on financial matters.	✓	✓	✓	✓
Assesses employees’ financial literacy to provide assistance and help set priorities: Programs should periodically assess employees’ financial situations and goals to pinpoint how best to provide assistance and help employees set priorities.	N/A	N/A	X DOD did not use pre- and post-test scores to revise course material	X No assessment of individuals’ knowledge
Enables employees to take action directly from the course: Programs should provide employees the means, for example, through direct links or forms provided in the course, to convert knowledge to action.	N/A	N/A	X No link to directly contact financial counselors; no form to enroll in or change TSP contributions	✓

Source: GAO analysis of Department of Defense Blended Retirement System trainings based on [GAO-15-639SP](#). | GAO-19-631  
 Note: GAO selected effective practices for DOD’s BRS financial literacy training from our prior report on the role of financial literacy education in the workplace: GAO, Financial Literacy: The Role of the Workplace, [GAO-15-639SP](#) (Washington, D.C.: July 2015).

While the BRS trainings met many of the financial literacy effective practices we selected, two of the trainings fell short in assessing servicemembers’ financial literacy, which could allow DOD to better pinpoint how to provide assistance and help servicemembers set priorities. Servicemembers were required to pass a test to complete the BRS Opt-In Course; DOD data show that only 32 percent of servicemembers passed on their first attempt. However, DOD did not revise course material to provide additional information in topic areas where post-test results indicated servicemembers may have needed further training. DOD officials said that the agency consciously avoided making significant changes to its BRS trainings to ensure consistency and course stability throughout the opt-in enrollment period. DOD officials also told us that they were not surprised by the initial low pass rate because



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they designed the test to be difficult so that servicemembers could demonstrate mastery of the material.

DOD's New Accession Course does not assess individual servicemembers' understanding of the material, which is information DOD would need to improve its training to provide assistance and help servicemembers set priorities. The course includes a series of knowledge checks, but because the questions are administered to the group as a whole, DOD cannot assess individual servicemembers' understanding and use this information to revise the course material or to provide servicemembers with additional assistance. DOD officials told us that the agency views the course as successful because it gets students to engage in discussion regarding the basics of BRS and financial readiness. DOD does not have a plan to assess individual servicemembers' understanding of course material going forward. While servicemember engagement is important, it is not an assessment of their understanding of course material. Servicemembers who do not understand BRS concepts may not save enough for a secure retirement under BRS.

Additionally, the BRS Opt-In Course did not meet the financial literacy training effective practice of enabling servicemembers to act on course information directly from the training. For example, the BRS Opt-In Course suggested servicemembers contact PFMs and PFCs if they had further questions about BRS, but the course did not provide direct links for servicemembers to do so. Further, the course did not include forms for servicemembers to enroll in and make contributions to TSP accounts. This standard is considered an effective practice for financial literacy training because research has found that employees who can directly convert their knowledge to immediate action have improved overall financial wellness. DOD addressed this issue in its most recently released training, the BRS New Accession Course, which enables servicemembers to make immediate decisions, such as assigning their initial TSP contribution rates, by providing servicemembers the relevant form within the training.<sup>27</sup>

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<sup>27</sup>DOD also automated the default contribution rate of 3 percent of servicemembers' basic pay into their TSP accounts into a lifecycle investment fund based on each servicemember's age. Servicemembers can change their contribution rate at any time, and would receive the full government TSP match of 5 percent if they contribute 5 percent of their basic pay to their TSP account.

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The NDAA for Fiscal Year 2016 included a requirement for DOD to add questions on servicemembers' financial literacy to its annual survey and use the results as a benchmark to evaluate and update the continuing financial literacy training DOD will provide to servicemembers in the future.<sup>28</sup> The NDAA for Fiscal Year 2016 also requires DOD to develop ongoing financial literacy training for servicemembers to take at key career and life stages. DOD has the opportunity to ensure that individual knowledge assessments are included in the guidance it provides the service branches on the key objectives that must be met in these trainings.

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### DOD Can Learn from Servicemembers' Challenges Taking the BRS Opt-In Course to Improve its Ongoing Training

Military personnel cited multiple challenges described by servicemembers in taking the BRS Opt-In Course and seeking financial literacy support. In our interviews at five military installations, military supervisors and financial counselors said they believed servicemembers had difficulty (1) understanding the training due to their low financial literacy; (2) taking, and relating to, optional financial literacy training due to mission and short-term life goals; and (3) setting up online access to their TSP accounts.

### Servicemembers' Financial Literacy

Many military supervisors and Personal Financial Managers (PFMs) we interviewed said that many servicemembers with whom they interacted misunderstood key BRS concepts and lacked the basic knowledge to make sound financial decisions related to BRS even after completing the mandatory BRS Opt-In Course. Providing basic financial education to junior enlisted servicemembers, who can be as young as 17 years old, may be especially challenging due to their limited life and work experience. These servicemembers score the lowest on measures of financial literacy, according to the 2017 Status of Forces Survey, an

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<sup>28</sup>The NDAA for Fiscal Year 2016 added a requirement for DOD to annually include questions in the Status of Forces Survey—DOD's annual survey of a large-scale representative sample of servicemembers that covers key issues of military life—on the status of servicemembers' financial literacy and preparedness, use the results as a benchmark to evaluate and update the continuing financial literacy training they provide to servicemembers at life and career stages, and submit the results to the House and Senate Armed Services Committees.

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annual survey of a sample of servicemembers that covers key issues of military life.<sup>29</sup>

Some servicemembers said that the training platforms (e.g., computer-based and large group training), while efficient in providing mandatory training to a large group of servicemembers, were not ideal for a group with very limited baseline financial literacy. For example, several military supervisors said some servicemembers advanced through the computer-based BRS Opt-In Course as quickly as possible, and may not have understood the content. One military supervisor said it may be hard for servicemembers to identify the most critical elements in the computer-based training because they could not interact with the material or ask clarifying or personal questions. For example, one group of military supervisors said the current training addresses what TSP is, but there is a need for more training to answer servicemembers' questions about how to manage and optimize their accounts for retirement savings. In response, DOD officials said that while these topics were not covered in depth in the BRS trainings, servicemembers have access to additional resources, such as PFMs and the TSP website for help with personal questions about managing their savings under BRS.

Large group trainings, which could have hundreds of servicemembers in attendance, also may have discouraged servicemembers from asking clarifying questions due to the number of participants. DOD officials acknowledged that servicemembers may need more one-on-one help when making personal financial decisions, which is why the agency trained PFMs and PFCs to address servicemembers' BRS and financial literacy questions and provide additional support. Some military supervisors said the servicemembers who they directed to optional one-on-one financial counseling sessions asked the PFMs detailed questions their supervisors were not able to answer, ran their own numbers and received personalized information to help them make decisions, and often took action during the session. DOD officials said one challenge to getting servicemembers to seek out more personalized one-on-one financial help is the perception that servicemembers seek PFMs primarily after facing financial hardship. These officials said they are working to shift the military culture so servicemembers seek out PFMs for financial planning purposes similar to how civilians use financial counselors.

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<sup>29</sup>However, the Status of Forces Survey also finds that both active-duty and reserve junior enlisted servicemembers were more likely than adults in the U.S. population as a whole to correctly answer most of the financial literacy questions asked.

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## Balancing Financial Literacy Education with Competing Priorities

Military supervisors and PFMs told us that servicemembers had difficulty seeking out financial literacy support because of demanding operational schedules and a focus on short-term life and mission goals. This was especially true for junior servicemembers, who may be uncomfortable requesting time away from their mission duties. Further, some military supervisors said junior servicemembers tended not to recognize the importance of saving for retirement when faced with other, more immediate, financial priorities, such as purchasing a car. One group of military supervisors said that since most junior servicemembers do not seek out retirement advice, they try to find opportunities to weave the topic into other discussions, for example, about how taking out a car loan can impact a junior servicemember's saving for retirement.

## Setting Up TSP Online Account Access

Servicemembers can manage their TSP accounts online by viewing current plan information and making or changing contribution allocations; however, setting up an online account depends on servicemembers having a stable mailing address. The Federal Retirement Thrift Investment Board (FRTIB), which administers the TSP, mails participants a time-sensitive TSP password required to access their TSP accounts online. Some military supervisors said that servicemembers reported difficulty receiving their initial TSP password because they relocate often and may lack a permanent mailing address. FRTIB officials acknowledged that this fraud prevention measure might make it more difficult for participants to access their TSP accounts, but noted that they must balance security with ease of use and have not yet found any viable options to address this issue. Federal government internal controls standards state that entities should use appropriate methods to communicate so that information is readily available when needed.<sup>30</sup>

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<sup>30</sup>See GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 10, 2014).

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## Additional Information Explaining BRS Lump-Sum Payment Options Needed for Servicemembers to Make Informed Choices

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### BRS Offers a Time- Limited, Partial Lump-Sum Payment Using a Single Discount Rate for All Servicemembers

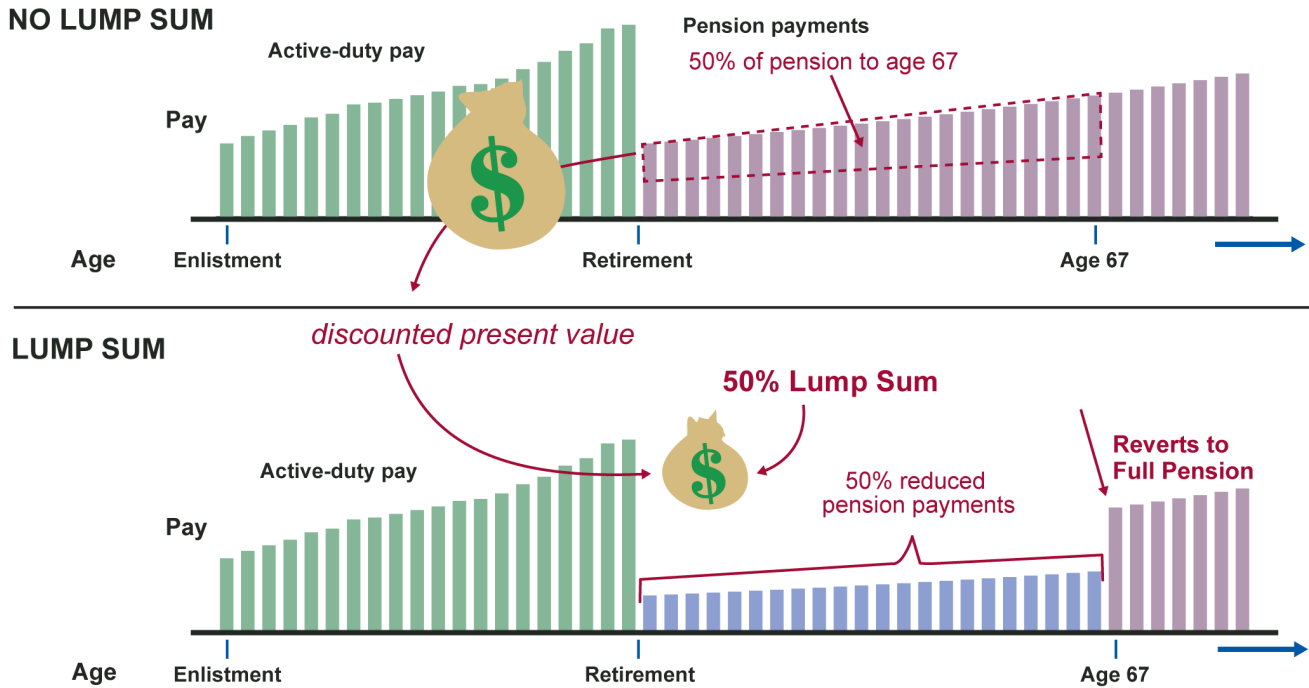
Under the Blended Retirement System (BRS), military retirees with 20 or more years of service may choose, when they retire, to convert part of their monthly annuity into a lump sum payment, in exchange for a temporarily lower monthly benefit. The lump-sum payment is partial in two ways: 1) servicemembers may convert either 25 or 50 percent of their annuity payments to a lump-sum payment, and 2) the lump-sum conversion only applies to annuity payments payable prior to the servicemember's Social Security full retirement age (FRA)—age 67 for those born in 1960 or later. After the service member reaches FRA, the annuity payments revert to the full monthly pension.<sup>31</sup> (See fig. 6.)

In its final report, the Military Compensation and Retirement Modernization Commission recommended that the new military retirement system should offer a lump-sum payment option to increase flexibility for retiring servicemembers and remain fiscally sustainable. Since many servicemembers retire from the military at a younger age than most civilians in the workplace, DOD officials said that some military retirees might prefer a lump-sum payment to start a business or buy a house.

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<sup>31</sup>Includes accumulated cost of living adjustments (COLA).

**Figure 6: Active-duty Pay and Resulting Pension Payments for Servicemembers, With and Without an Optional Lump Sum Payment**



Source: GAO analysis of Department of Defense data. | GAO-19-631

Note: This figure illustrates a stream of payments for a servicemember who chose no lump sum or a 50 percent lump-sum payment and would reach full retirement at age 67.

When DB plans offer an option to convert some or all monthly pension benefits to a lump-sum payment, the amount of the lump-sum payment is determined, in part, by using an interest rate (often called a discount rate) to calculate the “present value” of the future pension payments. The higher the discount rate, the smaller the lump-sum amount will be for a

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### Personal Discount Rates

Personal discount rates can be derived from individuals' behavior when faced with intertemporal monetary choices. In contrast, more traditional approaches to pension discount rates are based on financial market data or expectations rather than on individual preferences or behavior.

In theory, personal discount rates reflect individuals' valuation of money received today versus in the future. However, behavioral economic research has shown that people do not always make rational choices related to foregoing current benefits for future payoff.

Source: GAO analysis of economic theory and GAO, *Pension Plan Valuation: Views on Using Multiple Measures to Offer a More Complete Financial Picture*, GAO-14-264 (Washington, D.C.: Sept. 30, 2014) | GAO-19-631

given stream of converted pension payments.<sup>32</sup> The NDAA for Fiscal Year 2016 directed the Secretary of Defense to choose a discount rate for BRS lump sums that (1) uses average personal discount rates that take into consideration “applicable and reputable studies of personal discount rates for military personnel and past actuarial experience in the calculation of personal discount rates,” and (2) is in accordance with generally accepted actuarial principles and practices.

Researchers have sought to quantify personal discount rates by studying personal choices in a variety of contexts involving the tradeoff of payoffs at different times (see sidebar). Two such studies involved military personnel being offered lump-sum payments in lieu of annuity payments.<sup>33</sup> According to the Institute for Defense Analyses (IDA), the studies computed an estimated average personal discount rate for servicemembers who were presented with the offer, based on the choices by servicemembers to either elect the lump-sum payment or the annuity.

DOD officials told us that, to comply with the requirements of the NDAA for Fiscal Year 2016, they considered several factors to set the discount rate for BRS lump-sum calculations. DOD officials said they first contracted with a research organization to estimate a range of personal discount rates based on past studies. They said they then adjusted that range based on differences between the specific features of past lump-

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<sup>32</sup>This inverse relationship occurs because present value calculations reflect the time value of money. A dollar in the future is worth less than a dollar today because the dollar today can be invested and earn interest. Using a higher interest rate will lower the present value of a stream of future payments—or, in this case, will lower the amount of the lump-sum payment—because it implies that a lower sum of money would be needed to fund those future payments.

<sup>33</sup>The concept of personal discount rates derives from economic theory regarding the degree to which people are willing to accept a lower payment earlier rather than a larger payment later. The Institute for Defense Analyses (IDA) provided information in its report on two past DOD initiatives that offered servicemembers lump-sum payments. In one effort to downsize the military during the early 1990s, DOD offered eligible personnel a choice between a lump-sum separation benefit and an annuity. In the other, the fiscal year 2001 repeal of a less generous military retirement system, qualifying servicemembers were given the option of either (1) returning to the more generous system, or (2) remaining in the retirement system and receiving a \$30,000 lump-sum bonus. Two research studies estimated average personal discount rates by observing the servicemembers' choices in these real-world situations. IDA summarized these studies in its report, *Institute for Defense Analyses, “Discount Rate Analysis for Blended Retirement System Lump Sum Payments”* (Alexandria, VA: November 2017).

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sum offers and those of BRS lump sums.<sup>34</sup> They also considered how a lump-sum offer could impact the retention of military personnel, since DOD relies on a percentage of experienced servicemembers to continue serving beyond 20 years. DOD officials told us they wanted to reduce the likelihood a lump-sum payment would lead more people to retire earlier than they would otherwise. Finally, even though past studies had found higher personal discount rates (resulting in smaller lump-sum amounts) for enlisted servicemembers than officers, DOD officials told us it would go against core values of military compensation if the agency did not apply the same discount rate to all lump-sum payments, regardless of the servicemember's rank.

Considering all of these factors, DOD devised a formula for setting what it termed the "Government Discount Rate" (GDR) that would be used in calculating BRS lump-sum amounts. DOD constructed the GDR by starting with a market index of high-quality corporate bond rates and then adding an adjustment factor so that the GDR fell within the range of observed personal discount rates.<sup>35</sup> According to DOD, this current method for setting this rate will be reexamined at least every 4 years. The GDR for 2019 is 6.81 percent, which is a "real" interest rate that does not include an inflation component. To compare the GDR to more common nominal interest rates, an inflation adjustment must be added.<sup>36</sup> For example, if inflation were assumed to be 2.4 percent per year, a GDR of

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<sup>34</sup>The Institute for Defense Analyses (IDA) pointed out that the features and goals of BRS lump-sum offers would be very different from those of the 1992 downsizing program. IDA stated in its study that it believed the 2000 REDUX lump-sum offer more closely matched BRS and would provide a better predictor of lump-sum elections among servicemembers eligible for the lump-sum option under BRS. According to a DOD official, IDA provided DOD with a range of average real personal discount rates between 5.7 and 12.2 percent to use as suggested targets for the BRS lump-sum discount rate.

<sup>35</sup>DOD's construction of the GDR begins with a 7-year average of estimated high-quality corporate bond rates for maturities of about 23 years, and then adds an add-on factor to bring the discount rate up to a level consistent with applicable studies of personal discount rates, subject to possible adjustments for retention concerns. DOD officials told us that the 23-year maturity was intended to reflect the average time between a servicemember's retirement from the military until Social Security full retirement age (FRA). The 7-year averaging is for the purpose of smoothing out short-term fluctuations in interest rates. The adjustment factor for 2018 and 2019 is 4.28 percentage points.

<sup>36</sup>Interest rates are often regarded, economically, as consisting of two components: a portion to cover expected inflation (the inflation component), plus a portion to provide a return in excess of inflation (the "real" return component).



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6.81 percent would be approximately equivalent to a nominal discount rate of 9.37 percent.<sup>37</sup>

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### BRS Lump Sums Are Calculated Using a Higher Discount Rate than Private-Sector Pension Plans, Leading to Smaller Lump-Sum Payments by Comparison

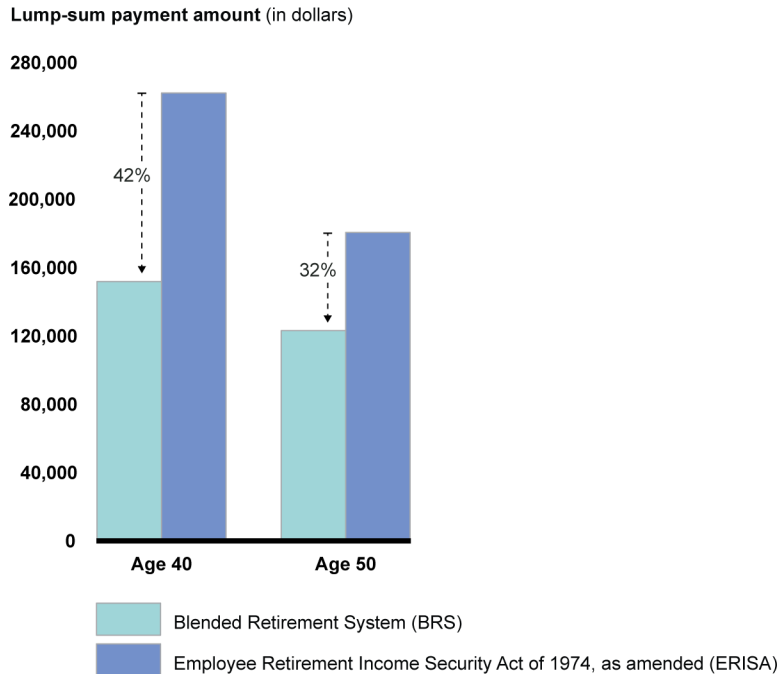
The method used to determine BRS lump-sum payment amounts is likely to result in a discount rate that is higher—based on recent interest rates, roughly double— than that used to calculate minimum lump-sum distributions from private-sector pension plans, when all other factors are equal.<sup>38</sup> The discount rates for determining minimum lump-sum amounts for private-sector pension plans that offer them are governed by ERISA. The Internal Revenue Service (IRS) publishes the discount rates applicable to minimum lump-sum determinations each month, based on ERISA provisions. For 2018, these rates generally fell in the range of 2.5 to 4.9 percent, on a nominal basis, compared to the GDR, which was about 9 percent, on a nominal basis (depending on assumed inflation). We found, based on recent interest rates, holding age and monthly annuity amounts constant, the higher discount rate applied to BRS lump-sum calculations would significantly reduce servicemembers' lump-sum payment amounts. Additionally, we found that the percentage difference would be the largest at younger retirement ages, since the difference in discount rates would have an impact over a longer period of time. For a servicemember retiring at age 40, for example, we found BRS lump-sum payments to be about 40 percent smaller, based on recent interest rates, than if calculated following the requirements under ERISA. (See fig. 7.) For more information on ERISA and our methodology for calculating lump-sum payments, as well as sensitivity testing and factors that can affect this comparison at different points in time, please see appendix I.

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<sup>37</sup>This is derived mathematically as  $[(1.0681 \times 1.0240) - 1] \times 100$ . Military Retirement System pensions are increased each year to fully keep up with inflation.

<sup>38</sup>We did not compare BRS discount rates to those used by state and local DB plans that offer lump sums because of a lack of reliable, generalizable data on the prevalence of lump sums offered by the many state and local government plans and the applicable discount rates used.

**Figure 7: Example of Military BRS and ERISA-Based Lump-Sum Payment Amounts for a Monthly Annuity of \$2,000 of which \$1,000 (50 Percent) Is Payable from Retirement Ages of 40 and 50 to Age 67**



Source: GAO analysis of methods used to compute lump-sum payments under ERISA and BRS. | GAO-19-631

Note: BRS and ERISA estimated lump-sum amounts in this example are based on a base inflation-indexed monthly annuity amount of \$2,000, a 50 percent lump-sum election at either age 40 or age 50 retirement (temporarily reducing the monthly annuity to \$1000), and a Social Security Full Retirement Age (FRA) of 67. To calculate the BRS lump-sum payment amount, we used a real interest rate of 6.81 percent (the Government Discount Rate applicable for 2019). To calculate the minimum ERISA lump-sum payment amount, we used the segment interest rates published by the IRS for May 2019, the most recent rates available at the time of our calculations (2.72 percent for the first 5 years, 3.76 percent for the next 15 years, and 4.33 percent for all years after the first 20), and assumed 2.40 percent annual inflation rate adjustments to the annuity payments. The ERISA amounts also reflect the applicable mortality discount that applies to the minimum ERISA lump sum but not to the BRS lump sum.

DOD officials told us that the discount rate used for BRS lump-sum payments was different than the rate used in private-sector pension plans for some key reasons. DOD officials said the NDAA for Fiscal Year 2016 required that the BRS discount rate be based on average personal discount rates, which is a different approach to discount rates than that used under ERISA. DOD officials also said the agency relies on maintaining a certain percentage of servicemembers with 20 or more years of service and did not want the offer of a lump-sum offer to entice too large a percentage of servicemembers to leave military service.

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However, knowledgeable stakeholders expressed some concerns with the higher discount rate used to determine BRS lump-sum payment amounts. For example, the DOD Board of Actuaries stated that a relatively high discount rate, and the lower lump-sum payments that would result, could be perceived as taking advantage of servicemembers.<sup>39</sup> Additionally, the American Academy of Actuaries said those who accept lump-sum payments using higher discount rates are likely to either not understand the financial value of their annuity benefits or have an immediate financial need. On the other hand, stakeholders we interviewed noted that BRS's lump-sum feature was intended to provide options to servicemembers, which was a central component of implementing BRS.

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### Servicemembers Could Benefit From More Information on Lump-Sum Distributions

Although current active-duty servicemembers eligible to choose a lump-sum payment are not scheduled to retire until 2026, at the earliest, DOD can take certain steps to help them better understand the tradeoffs associated with the lump-sum option. Decisions about lump-sum options are complicated, and stakeholders knowledgeable about financial literacy have pointed out the importance of providing sufficient information about the tradeoffs involved for those making such decisions. In a 2015 report, we identified key information to help individuals in the private sector make an informed decision when considering a lump-sum payment versus an annuity.<sup>40</sup> (See table 2.)

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<sup>39</sup>2016 Report to the President and Congress, Submitted by the Department of Defense Board of Actuaries, December 2016. This report was issued prior to DOD's publication of the BRS lump sum discount rate formula.

<sup>40</sup>GAO, *Private Pensions: Participants Need Better Information When Offered Lump Sums That Replace Their Lifetime Benefits*, [GAO-15-74](#) (Washington, D.C.: Jan. 27, 2015).

**Table 2: Key Information Identified by GAO that Could Be Included in Military Blended Retirement System (BRS) Disclosures on Lump Sums and Annuities**

<b>Key information on lump sums versus annuities</b>	<b>Application to the Blended Retirement System (BRS)</b>
What benefit options are available?	Describe how servicemembers can convert either 25 or 50 percent of their annuity, paid through full retirement age (FRA), into a lump-sum payment, in exchange for a temporarily reduced annuity.
How was the lump sum calculated?	Provide servicemembers with the amount of money the servicemember is giving up to take the lump sum, and with the discount rate, showing how it is applied to the foregone annuity payments to calculate the lump sum. Provide both the real discount rate (the Government Discount Rate) and an illustration and explanation of an equivalent nominal discount rate, to give servicemembers a rate that is more comparable to commonly quoted interest rates. The Department of Defense (DOD) could include some of this information in its BRS calculator.
What is the relative value of the lump sum versus the monthly annuity?	Provide servicemembers with information on some measure of the relative value of their lump-sum payment. For example, DOD could provide an estimate of what the lump-sum value would be based on some indicator of current or recent nominal interest rates, such as the rate on 10-year Treasury bonds, or average mortgage interest rates, or high-quality corporate bond yields.
What are the potential positive and negative ramifications of accepting the lump sum?	Provide factors to consider when deciding on the lump sum, such as the need for a large amount of money at once, and risks of managing a lump sum. Provide information on the lower monthly annuity income which occurs when a lump sum is paid.
What are the tax implications of accepting a lump sum?	Inform participants that accepting a lump sum could raise taxes substantially upon retirement, while lowering taxes somewhat until FRA, compared to not taking a lump sum.
What are the instructions for either accepting or rejecting the lump sum?	Provide servicemembers with the deadline for accepting a lump-sum offer as well as any training material that will be required.
Who can be contacted for more assistance?	Provide servicemembers human resources contact information.

Source: GAO analysis of BRS based on GAO, Private Pensions: Participants Need Better Information When Offered Lump Sums That Replace Their Lifetime Benefits, [GAO-15-74](#). (Washington, D.C.: Jan. 27, 2015). | GAO-19-631

Without this key information, service personnel will be unable to prudently weigh the advantages and disadvantages of the lump-sum option in their retirement decisions. DOD officials said they posted a training video on the BRS lump-sum option to the BRS website in July 2019.<sup>41</sup> Servicemembers also have access to other descriptive material on the BRS website, such as a fact sheet on the BRS lump sum, and the BRS calculator to estimate their lump-sum payment with some assumptions about future pay.

<sup>41</sup> We did not include an evaluation of the lump-sum training in this report because it was made public after we had completed our review.

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## Conclusions

The shift from the legacy retirement system to BRS marks a significant change in retirement benefits for an estimated 1.7 million military servicemembers. While more servicemembers will receive retirement benefits under BRS than under the legacy retirement system, BRS will require servicemembers to more actively and continuously manage their retirement decisions throughout their military career and in retirement. As an employer, DOD is well positioned to provide financial literacy training and support to servicemembers as they make retirement decisions. DOD has designed a multi-faceted approach to provide resources over time and in a variety of formats, increasing the likelihood that servicemembers will be able to find guidance when they need it. DOD completed a large undertaking in educating servicemembers about the choice they faced in deciding whether to opt into BRS, but this was only the first step in educating servicemembers about how to maximize and manage their retirement savings under BRS. In educating servicemembers about saving for retirement, DOD would benefit from applying the financial literacy training effective practices identified by experts, especially periodically assessing employees' financial understanding and using these assessments to revise and tailor ongoing training.

Given that young servicemembers are often stationed in multiple locations for short amounts of time and that BRS places increased responsibility on servicemembers to save for retirement through TSP contributions, it is important that servicemembers receive the necessary information to access their TSP accounts online in a timely manner. The current TSP password process has limited some servicemembers' ability to manage their accounts. It is important for FRTIB to expeditiously address this issue.

Of additional concern is how DOD will ensure that servicemembers understand the tradeoffs associated with BRS's lump-sum feature. BRS lump-sum payments are calculated using a higher discount rate than private-sector pension plans, which results in lower lump-sum payments, by comparison. While the BRS lump sum is limited, and the full annuity amount would resume at servicemembers' Social Security full retirement age, the reduced annuity paid until then could still have a significant impact on some servicemembers' financial security. A fundamental element of BRS is the greater responsibility and choice placed on individuals. To work well, such a system requires that sufficient, clear, and accurate information be provided so that servicemembers can make the prudent choices best suited to their personal financial situations. Consistent with this principle, DOD should ensure that the information

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and tools that it provides to eligible servicemembers about the lump sum clearly lay out the tradeoffs of this decision and allows those eligible to make a well-informed prudent choice that best meets their individual financial circumstances.

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## Recommendations for Executive Action

- The Secretary of Defense should evaluate the results of its financial literacy training assessments to determine where gaps in servicemembers' financial knowledge exist and revise future trainings to address these gaps. (Recommendation 1)
- The Secretary of Defense should provide servicemembers disclosures that explain key pieces of information about the lump-sum payment, including some measure of its relative value, the potential positive and negative financial ramifications of choosing the lump-sum payment option, and a description of how it was calculated. (Recommendation 2)
- The Executive Director of the Federal Retirement Thrift Investment Board should work with the Secretary of Defense to explore alternative options (including online resources) for servicemembers to receive their initial Thrift Savings Plan password so that servicemembers can access and manage their online accounts without added delays. (Recommendation 3)

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## Agency Comments

We provided a draft of this report to the Secretary of Defense and the Executive Director of the Federal Retirement Thrift Investment Board for review and comment.

In its letter, which is reproduced in appendix II, DOD concurred with the report's recommendations and offered comments on some of our findings. For recommendation 1, regarding the evaluation of its financial literacy training assessments, DOD stated that in 2017 it added questions to its annual Status of Forces Survey to assess the military population's understanding of basic financial concepts. While these survey results will allow DOD to respond to identified gaps in servicemembers' financial literacy, Status of Forces survey results have taken years to compile in the past. Assessing servicemembers' financial literacy as part of mandatory trainings will allow DOD to more promptly identify gaps in servicemembers' knowledge and adjust trainings to address those gaps. For recommendation 2, regarding the provision of information on the BRS's lump-sum payment options, DOD stated that it has developed a

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training course, published information to help educate servicemembers on the BRS's lump-sum option, and included a lump-sum section in its BRS calculator. While we are encouraged by DOD's efforts to develop various tools for educating servicemembers on the BRS's lump-sum option, in this report we identified additional information that is important to include in lump sum disclosures.

In its letter, DOD expressed concern that the title of our report focused only on one aspect of our findings. We believe that the title accurately reflects our report's key findings, conclusions, and recommendations. DOD also said that the agency did not intend for the BRS Opt-In Course to be financial literacy training, and thus were concerned that we evaluated this training based on the effective practice identified in prior GAO work of assessing employees' financial literacy to provide assistance and help set priorities. However, we believe that our use of this effective practice to evaluate the BRS Opt-in Course is consistent with our prior findings that employers are well-suited to provide financial education and help individuals improve their financial decision making. We compared the BRS Opt-In Course to this effective practice because the course provided DOD an opportunity to assess whether servicemembers understood key aspects of BRS, undoubtedly a key aspect of servicemembers' financial well-being.

In addition, DOD stated that the agency viewed servicemembers' initial low pass-rate of the BRS Opt-In Course as a positive result because they designed the course to be rigorous and it forced servicemembers to retake the parts of the training where they were failing to comprehend the course material. DOD also stated that revising the training during the 2017 training period was not practical because it would have resulted in some servicemembers receiving disparate training formats and materials. We understand DOD's concerns; however as DOD continues to develop additional financial literacy training we encourage the agency to consider that low pass rates on post-training tests often indicate a gap in knowledge and a possible need to revise the training.

In its final comment, DOD agreed with us that there is a lack of reliable data for comparing the BRS lump-sum feature with those provisions offered by state and local government pension plans. DOD also stated that the BRS lump-sum feature was unique and therefore not comparable to private-sector pension plans governed by ERISA. Although there are differences between BRS and ERISA, the BRS and ERISA lump-sum provisions are the only defined benefit lump sum conversion provisions that are specified under federal law. Further, the lump-sum provisions for

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both reflect a participant choice that can have important consequences for a participant's financial security. Our recommendation is premised on the principle that regardless of which particular features a pension plan offers, participants need clear, complete, and accurate information to make prudent decisions regarding their retirement security.

The FRTIB also provided comments, reproduced in appendix III, and generally agreed with the report's findings and conclusions. The FRTIB also concurred with our recommendation regarding the provision of TSP passwords to military personnel and said that they will continue to explore avenues to address how servicemembers receive their initial TSP password while continuing to emphasize the need for security.

DOD and FRTIB provided technical comments, which we incorporated into the report as appropriate.

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As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of this report until 30 days from the report date. We are sending copies of this report to the Secretary of Defense, the Executive Director of the Federal Retirement Thrift Investment Board, the Director of the Consumer Financial Protection Bureau, and other interested parties. This report is also available at no charge on the GAO website at <http://www.gao.gov>.



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If you or your staff have any questions about this report, please contact Charles Jeszeck at (202) 512-7215 or [jeszeckc@gao.gov](mailto:jeszeckc@gao.gov) or Frank Todisco at (202) 512-2700 or [todiscof@gao.gov](mailto:todiscof@gao.gov). Mr. Todisco meets the qualification standards of the American Academy of Actuaries to address the actuarial issues contained in this report. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.



Charles A. Jeszeck,  
Director,  
Education, Workforce, and Income Security Issues



Frank Todisco,  
Chief Actuary,  
Applied Research and Methods

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# Appendix I: Objectives, Scope, and Methodology

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This appendix discusses in detail our methodology for addressing (1) what actions the Department of Defense (DOD) has taken to help servicemembers understand the Blended Retirement System (BRS) and, more generally, educate servicemembers on saving for retirement; (2) what DOD can learn from financial literacy training effective practices and the implementation of BRS training to continue supporting servicemembers in saving for retirement; and (3) how lump-sum payment amounts are determined under BRS and how they compare to the methods used for private-sector pension plans that offer them.

To answer all of these questions, we interviewed officials at DOD, the Federal Retirement Thrift Investment Board (FRTIB), the Consumer Financial Protection Bureau (CFPB), and other organizational stakeholders knowledgeable about the military and retirement. We also reviewed relevant agency documents and federal laws and regulations.

To understand how DOD helped servicemembers understand BRS, we reviewed DOD's centralized training and outreach material. We also conducted group interviews with senior officers and enlisted servicemembers on military installations to learn about some of the informal training and mentorship provided by military leaders. We used the following criteria to select military installations to visit:

1. Sufficient number of BRS-eligible personnel available to participate
2. High number of active-duty servicemembers stationed at the installation
3. Availability of a Personal Financial Manager (PFM) on the installation
4. Geographically-dispersed locations
5. Mix of single service versus joint bases
6. Proximity to an urban center
7. Primary mission of the installation is operational (versus training)

We selected five military installations to visit: Camp Pendleton (Marine Corps), Fort Sam Houston (Army), Naval Base San Diego (Navy), and Randolph Air Force Base and Scott Air Force Base (Air Force). At each installation, we met with separate groups of 8 to 12 senior enlisted servicemembers and senior officers. These senior servicemembers supervise junior servicemembers who, as a group, were most likely to have had to make a decision on whether to opt into BRS. We also met with the groups' installation-level financial management professionals—Personal Financial Managers (PFM), Personal Financial Counselors

(PFC), or Command Financial Specialists (CFS)—who provide servicemembers additional financial literacy training and one-on-one financial counseling. We asked questions of all group interview participants related to:

1. Information provided to servicemembers about BRS
2. Common needs of servicemembers in making decisions about BRS
3. Common questions servicemembers had about BRS
4. Challenges experienced in providing training and/or support
5. Anticipated future needs for training and/or support

These interviews provided insights into senior officers and enlisted servicemembers' experiences facilitating the rollout of BRS training to junior servicemembers, but did not yield information that was generalizable to all senior officers and enlisted servicemembers.

We also reviewed and compared DOD's financial literacy trainings to financial literacy training effective practices. To identify financial literacy effective practices, we reviewed published articles and reports on the topic. Our review included a March 17, 2015 forum GAO convened with 20 financial literacy leaders and experts focusing on financial education in the workplace, and the subsequent report, *Financial Literacy: The Role of the Workplace*, [GAO-15-639SP](#) (Washington, D.C.: July 2015). The report provided the best single compilation of financial literacy effective practices from a diverse set of experts from the private, non-profit, governmental, and academic sectors. The report summarizes forum participants' discussions across seven topic areas. Of these seven, we selected two that were most germane to DOD's BRS training: (1) Employers should address the needs of traditionally underserved workplace populations, and (2) Effective practices can include automatic enrollment in retirement plans, financial health checks, and personalization. Across these two topic areas, we selected the five financial literacy training effective practices that were most relevant to the type of trainings DOD developed for BRS. Specifically, we determined if BRS trainings (1) contain unbiased information, (2) contain links to one-on-one financial help, (3) leverage trusted messengers, (4) assess participants' financial literacy so DOD can provide assistance and help set priorities, and (5) enable participants to take action directly from the course.

To understand how BRS lump-sum payments are determined, we interviewed DOD officials to learn about the issues they considered when designing BRS's lump-sum feature, how DOD determines the discount rate it uses for lump-sum payments, and how the BRS discount rate used to calculate lump sums relates to personal discount rates. To understand discount rate issues applicable to lump-sum payments in other pension plans, we interviewed stakeholders knowledgeable about other pension plans, consulted with our internal actuarial experts, and reviewed relevant prior work.<sup>1</sup> We also consulted with actuaries at DOD to clarify our technical understanding of the calculation of lump-sum amounts under BRS.

We created a lump-sum payment calculator to run simulations of various lump-sum calculations—including those used in private-sector pension plans—to show the effect that varying certain calculation methods and assumptions can have on the value of the lump-sum payment. We calculated and compared illustrative lump-sum amounts under BRS to what those lump-sum amounts would have been under federal laws and regulations applicable to private-sector pension plans. We did not do a similar comparison to public-sector pension plans because of a lack of reliable, generalizable data on the prevalence of lump sums offered by the many state and local government plans and the applicable discount rates used. Some lump-sum options under state and local government plans do not require a discount rate at all because they return employee contributions with interest or are a deferred retirement option provision (DROP) rather than lump sums that involve discounting future promised payments. Different state or local governments might set their own rules regarding any lump sums.<sup>2</sup> In contrast, the lump-sum provisions applicable to both BRS and private-sector pension plans under the Employee Retirement Income Security Act of 1974, as amended (ERISA) are in federal law.

The following section provides additional technical detail regarding the methods used to determine the lump-sum discount rate (the Government Discount Rate, or GDR) under BRS; the methods used to determine discount rates for determining minimum lump-sum amounts under ERISA;

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<sup>1</sup>See GAO, *Pension Plan Valuation: Views on Using Multiple Measures to Offer a More Complete Financial Picture*, [GAO-14-264](#) (Washington, D.C.: Sep. 20, 2014) and [GAO-15-74](#).

<sup>2</sup>We did not review rules governing state or local government plans for this report.

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a discussion of key differences between BRS and ERISA approaches; and the methods and assumptions we used to compare BRS lump-sum amounts to minimum lump sums under ERISA, along with a discussion of how the comparison could vary over time.

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### Comparison of Lump-Sum Amounts under BRS and Private-Sector Pension Plans

DOD's construction of the GDR begins with a 7-year average of estimated high-quality corporate bond real interest rates for maturities of about 23 years, and then adds an add-on factor to bring the discount rate up to a level consistent with applicable studies of personal discount rates, subject to possible adjustments for DOD concerns about retention of servicemembers. DOD officials told us that the 23-year maturity was intended to reflect the average time between a servicemember's retirement from the military until Social Security full retirement age (FRA). The 7-year averaging is for the purpose of smoothing out short-term fluctuations in interest rates. The add-on for 2018 and 2019 is 4.28 percentage points. The GDR for 2019 is 6.81 percent, which is a "real" discount rate that does not include an inflation component.

Interest rates are often regarded, economically, as consisting of two components: a portion to cover expected inflation (the inflation component), plus a portion to provide a return in excess of inflation (the "real" return component). For example, if inflation expectations are 2.50 percent per year, and the interest rate on a bond is 4.50 percent, then the bond is expected to provide a real return (in excess of inflation) of approximately 1.95 percent ( $[(1.045/1.025 - 1)] \times 100$ ). In this case, 4.50 percent would be referred to as the nominal interest rate and 1.95 percent would be referred to as the real interest rate.

In order to convert the GDR into an equivalent nominal discount rate (for comparison to ERISA discount rates), an inflation assumption is needed. We used an inflation assumption of 2.40 percent per year, which is the inflation assumption used by the Congressional Budget Office (CBO) in its 2019 long-term budget outlook.<sup>3</sup> As a result, with this inflation assumption, the nominal discount rate equivalent to the GDR of 6.81 percent is 9.37 percent ( $[(1.0681 \times 1.0240) - 1] \times 100$ ). Military pensions (both under legacy and BRS) are increased each year to fully keep up with inflation. The lump-sum equivalent of such a benefit could be

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<sup>3</sup>Congressional Budget Office (CBO), *The 2019 Long-Term Budget Outlook* (Washington, D.C.: June 2019): <https://www.cbo.gov/system/files/2019-06/55331-LTBO-2.pdf>. This inflation projection is for the consumer price index for all urban consumers (CPI-U).

calculated in one of two ways, which mathematically would produce the same result: (1) applying the nominal discount rate (in this example, 9.37 percent) to the projected increasing series of monthly annuity benefits, or (2) applying the real discount rate (in this example, 6.81 percent) to a fixed (not inflation indexed) monthly annuity.

For determining minimum lump sums under ERISA, the discount rate is actually a combination of three “segment” rates that reflect bond yields at different maturities: a short-term rate to discount future payments due in the next 5 years, a medium-term rate to discount future payments due between 5 and 20 years out, and a long-term rate to discount future payments due beyond 20 years. These are nominal rates. These rates are published monthly by the Internal Revenue Service (IRS) and are based on an average of high-quality corporate bond rates for the month. Private-sector pension plan sponsors have some flexibility in selecting a method for determining which monthly averages would be used to calculate lump sums offered in a particular plan year. As a result, for a lump sum payable in a particular month, the applicable ERISA segment rates could be those for a month up to 16 months prior to the month of the lump-sum payment, depending on the provisions of the plan.

Minimum lump sums under ERISA also include a “mortality discount,” which means that the lump sum is reduced to reflect the fact that for any future scheduled pension payment, there is a probability that the retiree will no longer be alive to receive it. We included this mortality discount in our ERISA calculations. DOD decided not to include a mortality discount in the BRS lump-sum methodology. DOD officials told us that mortality rates from age 44 to age 67 are relatively small, such that the impact of including mortality would be overwhelmed by minor changes in the discount rate. As a result, for simplicity, they decided not to include a mortality discount. Not including a mortality discount has the effect of making the BRS lump sum somewhat more generous than it would be if it included a mortality discount.

Thus, key differences in the determination of lump-sum amounts under BRS and for ERISA minimums include the following:

- The development of the GDR starts with corporate bond rates for a 23-year maturity, whereas the ERISA segment rates are based on corporate bond rates for many maturities that are summarized into three segment rates for three different ranges of maturities. Thus, the comparison at any point in time will be affected by the shape of the yield curve.

- The development of the GDR starts with a 7-year average of corporate bond rates, whereas the ERISA segment rates are based on more current corporate bond rates. Thus, the comparison at any point in time will be affected by movements in interest rates in the prior 7 years.
- The GDR includes an add-on, currently 4.28 percentage points, to bring the GDR in line with applicable studies of personal discount rates. According to DOD, the add-on also takes into account considerations of retention of military personnel. Thus, the comparison at any point in time will be affected by any changes DOD makes to the magnitude of the GDR add-on.
- The determination of the minimum lump sum under ERISA includes a mortality discount; the determination of lump sums under BRS does not.
- The GDR applies over an entire calendar year, whereas the segment rates change month to month, and the segment rates applicable to a particular month's lump sum could be the published rates for up to 16 months prior, depending on the plan provisions.

For our comparison, we assumed a lump sum payable in June 2019. As noted earlier, the applicable GDR for 2019 is 6.81 percent, and the nominal equivalent rate, based on our inflation assumption of 2.40 percent, is 9.37 percent. For the ERISA minimum lump sum, we used the May 2019 segment rates published by IRS, which are 2.72 percent for the first 5 years' scheduled payments, 3.76 percent for the next 15 years' payments, and 4.33 percent for the scheduled payments beyond 20 years. We also included the mortality discount in the ERISA calculation.

As noted in the body of this report, the result was that the BRS lump sum was 42 percent smaller than it would have been under ERISA rules for an age-40 retirement, and 32 percent smaller for an age-50 retirement. We also looked at the range of ERISA segment rates over the 16-month period from February 2018 through May 2019 to determine the range of potential results depending on which month's ERISA rates might apply for a particular plan. The BRS lump sum ranged from 38 percent smaller to 42 percent smaller than on an ERISA basis for an age-40 retirement and from 28 percent smaller to 32 percent smaller for an age-50 retirement.

We also calculated sensitivities from varying the inflation assumption. As noted earlier, we used an inflation assumption of 2.4 percent, the inflation assumption used by the CBO in its 2019 long-term budget outlook. If instead we used an inflation assumption of 2.0 percent (and the May

2019 ERISA segment rates), the BRS lump sum would have been 39 percent smaller than on an ERISA basis for an age-40 retirement, and 30 percent smaller for an age-50 retirement.

The other key differences, noted earlier, in the determination of lump-sum amounts under BRS and for ERISA minimums could also affect the comparison at any point in time. However, we believe the comparisons presented in this report are a reasonable representation of the general magnitude of the differences in lump-sum amounts under BRS compared to the minimum amount required under ERISA.

We conducted this performance audit from March 2018 to September 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



# Appendix II: Comments from the Department of Defense



MANPOWER AND  
RESERVE AFFAIRS

## OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

1500 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-1500

26 AUG 2019

Mr. Charles A. Jeszeck  
Director, Education, Workforce, and Income Security Issues  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Jeszeck:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-19-631, "MILITARY PENSIONS: Servicemembers Need Better Information to Support Retirement Savings Decisions," dated July 26, 2019 (GAO Code 102649).

DoD concurs with the two report recommendations and has attached official written comments for inclusion in the report. DoD already has measures in place to evaluate the financial literacy of the Force and will continue seeking new ways to assess this, while developing educational products to address the needs of our Service members. Additionally, the Department has already taken a number of steps to inform Service members about the financial ramifications of choosing a lump sum payment of retired pay under the Blended Retirement System (BRS).

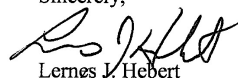
DoD provides other substantive comments below.

- DoD is concerned that the sensational title of the report, "Servicemembers Need Better Information to Support Retirement Savings Decisions," is not reflective of the scope nor the findings of the engagement. GAO only made one recommendation related to providing information to support retirement savings and acknowledged that DoD has already designed a multi-faceted approach to provide resources that will enable Service members to find guidance when they need it.
- The Department notes that GAO used its own previously-published "financial literacy training effective practices" to assess BRS training, but GAO never engaged DoD in a discussion as to the applicability of these practices. As such, DoD disagrees with evaluating BRS training based on the practice, "Assesses employee's financial literacy to provide assistance and set priorities." The BRS Opt-In course was not intended to be financial literacy training, but rather to provide information on a statutory benefit for eligible Service members. While not designed nor intended to provide an assessment of an individual's financial literacy needs, BRS training courses contained relevant financial literacy content, as well as content directing them to additional subject matter resources.

- The report cites a low initial pass rate of the “BRS Opt-In Course” post-test as evidence that the Department should have revised course materials; in fact, the DoD considered the low initial pass-rate a good feature of the course. Service members had to pass the post-test in order to complete the course. Initially failing the post-test forced the majority of Service members to revisit some of the more complicated aspects of the course to ensure a full understanding of the material prior to completing the course. Additionally, revising course content during the 2017 training period was not practical as training was planned, designed, and published to be delivered in multiple formats, such as online, by CD, and in groups using printed instructor guides. These multiple formats ensured availability to the 1.6 million eligible Service members across the world in various challenging duty assignments, such as serving onboard ship or deployed to combat zones. Revising the course during the training period would have resulted in disparate training for more remotely-deployed members.
- GAO notes that they did not compare BRS discount rates to those used by state and local government defined benefits plans because of a lack of reliable, generalizable data that could be compared to BRS. The lack of reliable data on such plans is true, but it is true still that the lump sum offered under BRS is so entirely unique as to be incomparable even to private-sector pension plans governed by the Employee Retirement Income Security Act of 1974 (ERISA). The DoD would submit that the BRS lump sum is no more comparable to civilian defined benefit lump sums than it is to state and local government lump sum offerings.

The Department appreciates the opportunity to comment on the draft report.

Sincerely,



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

Attachment:  
As Stated

GAO DRAFT REPORT DATED JULY 26, 2019  
GAO-19-631 (GAO CODE 102649)

“MILITARY PENSIONS: SERVICEMEMBERS NEED BETTER INFORMATION TO  
SUPPORT RETIREMENT SAVINGS DECISIONS”

DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATION

**RECOMMENDATION 1:** The GAO recommends that the Secretary of Defense should evaluate the results of its financial literacy training assessments to determine where gaps in servicemembers’ financial knowledge exist and revise future trainings to address these gaps.

**DoD RESPONSE:** Concur, as DoD is already meeting the intent of this recommendation by assessing the financial literacy and preparedness of Service members via the annual Status of Forces Survey and annually reporting these results to Congress, in accordance with section 992(d) of title 10, U.S. Code. The annual survey includes questions that allow the Department to understand the financial condition and behaviors of Service members, as well as objective measures of their financial literacy through a series of financial literacy “quiz” questions added in 2017. These questions assess the military population’s understanding of basic financial concepts such as inflation, compounding interest, and investment risk, as well as military-specific financial topics, such as the Thrift Savings Plan and Survivor Benefit Plan. Using the results of these surveys, the DoD is able to assess the financial knowledge of Service members and respond with appropriate educational efforts and resources.

With a total population of more than 1.3 million active duty and 800,000 Reserve Component members, the DoD must balance its critical mission requirements while ensuring Service members in vast and unique environments have access to financial education and counseling. While it is not practical to assess the financial knowledge of individual Service members, the Office of the Secretary of Defense recently issued policy on financial readiness common military training to ensure a minimal standard knowledge level that all Service members must attain at various points of their military career, in accordance with section 992 of title 10, U.S. Code.

**RECOMMENDATION 2:** The GAO recommends that the Secretary of Defense should provide servicemembers disclosures that explain key pieces of information about the lump-sum payment, including some measure of its relative value, the potential positive and negative financial ramifications of choosing the lump-sum payment option, and a description of how it calculated.

**DoD RESPONSE:** Concur, as DoD is already providing this information to Service members. The DoD agrees that Service members should understand the potential positive and negative financial ramifications of choosing a lump sum payment option, how the lump sum is calculated, and how to measure the relative value of that payment. DoD has already developed and published a BRS Lump Sum training course ([https://jko.iten.mil/courses/brs/brs\\_lump\\_sum/launch.html](https://jko.iten.mil/courses/brs/brs_lump_sum/launch.html)), a BRS retirement planning calculator with a lump sum module

(<https://militarypay.defense.gov/Calculators/Blended-Retirement-System-Standalone-Calculator/>), and a list of factors to consider on the lump sum election form (DD Form 2656).

The BRS Lump Sum training course explains:

- Who is eligible to elect a lump sum of retired pay;
- What is meant by the term “discounted present value” and how a discount rate affects the lump sum payment;
- How to access and use the online BRS Calculator that provides a lump sum payment estimate, its cost to the member in the form of a reduced annuity, and its impact on monthly retired pay; and,
- How and when to request a lump sum payment if the member chooses that option.

According to DoD policy, the Military Departments must make this training available to members covered by BRS who are eligible and intend to elect a lump sum of retired pay.

The BRS Calculator provides a comparison of the value of the member’s annuity with or without the lump sum payment, explicitly showing the member:

- The real lump sum discount rate;
- The nominal cost of the lump sum, as a percentage and as a dollar value “cost” of the foregone annuity;
- The projected monthly retired pay with no lump sum, a 25 percent lump sum, and a 50 percent lump sum;
- The sum of all pension payments from retirement until Full Retirement Age with no lump sum, a 25 percent lump sum, and a 50 percent lump sum; and,
- The estimated present value of the amount of the lump sum, as well as the estimated lump sum payment after the discount rate.

Part II, “Lump Sum Election” of DD Form 2656, “Data for Payment of Retired Personnel” provides a listing of considerations that a Service member must acknowledge, no less than 90 days prior to retirement, informing the Service member of the impact of electing a lump sum of retired pay. The form includes a signed acknowledgement by the member that he or she is aware of the resources available to assist in making a decision about a lump sum, that the member is aware of the tax implications of the lump sum, and that he or she is electing to receive less money by taking a lump sum.

# Appendix III: Comments from the Federal Retirement Thrift Investment Board



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD  
77 K Street, NE Washington, DC 20002

August 27, 2019

Mr. Charles Jeszeck, Director  
Education, Workforce, and  
Income Security Issues  
Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20226

Dear Mr. Jeszeck:

Thank you for sharing a draft of your report, "MILITARY PENSIONS: Servicemembers Need Better Information to Support Retirement Savings Decisions." The Federal Retirement Thrift Investment Board (FRTIB), the agency charged with administering the Thrift Savings Plan (TSP), concurs with your recommendation addressed to the FRTIB and does not have any comments regarding your recommendations to the Department of Defense (DoD).

The FRTIB has been focused on the issue of participant identity verification for some time. Trying to balance the security of ensuring TSP information is provided to the correct individual against ease of access is vital and extremely difficult. We will continue to explore avenues to address the specific issue raised in your report, while continuing to emphasize the need for security.

As for the larger issue of the implementation of the uniformed services' blended retirement system (BRS), the FRTIB is very pleased. The FRTIB created a cross-functional team that worked for two years to prepare for the January 1, 2018, effective date. BRS required the FRTIB to add capacity, both information technology and participant support, as well as updating virtually every publication the TSP produces. The FRTIB also collaborated closely with DoD in the development of the communications materials used by DoD and the TSP.

After January 1, 2018, the FRTIB closely monitored the roll-out of BRS. In March 2018, the FRTIB discovered a group of BRS opt-ins who had not had an account before 2018 and who were not contributing. In response, FRTIB created additional outreach materials, including an article ("Opted into BRS? Don't Forget This Important Step") for military publications, a short video ("Opted into BRS? Don't Miss Free Money"), used its social media channels, and updated its in-person education materials. FRTIB also communicated directly with non-contributors through targeted emails, printed notices, and postcards. The outreach materials were especially important for Marines, since they use one system (MarineOnline) to opt in and a separate system (myPay) to start

making TSP contributions. To help clarify this, FRTIB included distinct messaging for Marines with step-by-step instructions for making changes. One year after the FRTIB outreach began, the overall proportion of BRS non-contributors had decreased by approximately 40%. The FRTIB will continue to look for opportunities to provide targeted communications to BRS participants.

Thank you again for requesting the views of the FRTIB.

Sincerely,



Ravindra Deo

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# Appendix IV: GAO Contacts and Staff Acknowledgments

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## GAO Contacts

Charles A. Jeszeck at (202) 512-7215 or [jeszeckc@gao.gov](mailto:jeszeckc@gao.gov)  
Frank Todisco at (202) 512-2700 or [todiscof@gao.gov](mailto:todiscof@gao.gov)

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## Staff Acknowledgments

In addition to the contacts named above, Mark M. Glickman (Assistant Director), Anjali Tekchandani (Analyst-in-Charge), Cynthia Nelson, and Stephen C. Yoder made key contributions to this report. Also contributing to this report were Vincent Balloon, Alicia Cackley, Virginia Chanley, Sheila R. McCoy, Mimi Nguyen, Stacy Ouellette, Joseph Silvestri, Adam Wendel, and Seyda Wentworth.

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