



DEPUTY SECRETARY OF DEFENSE  
1010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1010

JAN 27 2017

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Implementation of the Blended Retirement System

This memorandum implements guidance for the Blended Retirement System for the Uniformed Services, which was authorized in sections 631 through 635 of Public Law 114-92, the National Defense Authorization Act for FY 2016, as modified by sections 631 through 633 of Public Law 114-328, the National Defense Authorization Act for FY 2017. This policy supplements existing issuances and regulations pertaining to military retirement and annuity programs to provide guidance specifically for the Blended Retirement System. The policy outlined in the attachments will be incorporated into all applicable issuances and regulations to ensure an effective and efficient transition to this new retirement system when the Blended Retirement System becomes effective on January 1, 2018. The implementation of a new retirement system is a monumental change for the Department, requiring significant involvement from the leadership of our Uniformed Services. I ask that you pay close attention to this program and remain committed to ensuring our Service members are fully-informed, educated, and prepared for this transition.

Attachments:

1. Guidance for Implementation of the Blended Retirement System for the Uniformed Services
2. Procedures for Determining and Publishing the Lump Sum Discount Rate



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# Attachment

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# ATTACHMENT 1 – GUIDANCE FOR IMPLEMENTATION OF THE BLENDED RETIREMENT SYSTEM FOR THE UNIFORMED SERVICES

## 1. GENERAL.

**a. Background.** This document provides guidance for the implementation of the Uniformed Services' Blended Retirement System (BRS). The BRS blends a 20-year cliff-vested defined benefit annuity, similar to the existing Uniformed Services' legacy retirement systems, with a defined contribution plan that allows Service members to contribute to a Thrift Savings Plan (TSP) account with government automatic and matching contributions. The BRS is expected to provide retirement savings benefits for the majority of Service members, including those who serve fewer than 20 years.

**b. Purpose.** This memorandum establishes policy, assigns responsibilities, and provides procedures for implementing all elements of the BRS, as enacted in Sections 631 through 635 of Public Law (P.L.) 114-92, the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2016, and as modified by Sections 631 through 633 of P.L. 114-328, the NDAA for FY 2017. Unless specifically stated in P.L. 114-92, P.L. 114-328, or this document, all existing provisions in statute, regulation, and policy related to retirement, retired pay, retainer pay, and survivor benefits remain in effect under the BRS. Policies and procedures established in this memorandum supplement existing guidance for military retirement in all applicable Departmental issuances, including Department of Defense (DoD) 7000.14-R, the "DoD Financial Management Regulation," and DoD instructions related to military compensation and survivor benefits. Those issuances will be updated to incorporate the policy outlined in this memorandum as applicable.

## 2. APPLICABILITY. This memorandum applies to:

a. The Office of the Secretary of Defense, the Military Departments (including the Coast Guard at all times, including when it is a Service in the Department of Homeland Security by agreement with that Department), the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Office of the Inspector General of the DoD, the Defense Agencies, the DoD Field Activities, and all other organizational entities within the DoD (referred to collectively in this memorandum as the "DoD Components").

b. The Commissioned Corps of the Public Health Service, by agreement with the Department of Health and Human Services, and the Commissioned Corps of the National Oceanic and Atmospheric Administration, by agreement with the Department of Commerce, except where specifically indicated in this document.

## 3. POLICY. It is DoD policy that:

a. DoD Components will implement and manage the BRS in accordance with Sections 631 through 635 of P.L. 114-92 and Sections 631 through 633 of P.L. 114-328 and procedures

contained in this memorandum, while remaining compliant with all other existing statutes, regulations, and issuances regarding retirement compensation and benefits.

b. The BRS goes into effect on January 1, 2018.

c. All members of the Uniformed Services who initially entered military or uniformed service on or before December 31, 2017, are grandfathered under their legacy retirement plan and will not be automatically switched to the BRS.

d. Any member of a Uniformed Service determined to be eligible for enrollment in the BRS by virtue of eligibility criteria contained in paragraphs 6.b.(2) through 6.b.(6) of this memorandum will complete mandatory training on the BRS, to be provided by the Assistant Secretary of Defense for Readiness (ASD(R)), in accordance with guidance prescribed by the Secretary concerned.

e. The decision by a member eligible to elect to enroll in the BRS is irrevocable.

#### **4. RESPONSIBILITIES.**

**a. Under Secretary of Defense (Personnel and Readiness) (USD(P&R)).** The USD(P&R) will:

(1) Develop and maintain DoD guidance governing retirement compensation in accordance with DoD Directive 5124.02.

(2) Develop, publish, and maintain DoD issuances and memoranda that provide additional policy to implement aspects of this memorandum, as required.

(3) Ensure the DoD Components effectively administer the provisions of the BRS in accordance with this memorandum.

(4) Adjudicate exception to policy requests.

**b. Assistant Secretary of Defense for Manpower and Reserve Affairs (ASD(M&RA)).** Under the authority, direction, and control of the USD(P&R), the ASD(M&RA) will:

(1) Oversee implementation of the guidance contained in this memorandum and manage the BRS program.

(2) Develop policies and establish procedures to adjudicate requests for extensions of the enrollment period in hardship cases.

**c. ASD(R).** Under the authority, direction, and control of the USD(P&R), the ASD(R) will:

(1) Develop standardized training courses to educate members of the Uniformed Services on the BRS in accordance with sections 3.d., 9.b.(1), and 9.f. of this issuance.

(2) Distribute training courses, educational products, guidance, and strategic communications materials related to training to enable the Secretaries concerned to fulfill their responsibilities outlined in section 4.f.(4).

**d. Deputy Assistant Secretary of Defense for Military Personnel Policy (DASD(MPP)).** Under the authority, direction, and control of the ASD(M&RA), the DASD(MPP) will annually publish the discount rate to be applied to lump sum elections of members' retired pay, as discussed in Attachment 2 of this memorandum.

**e. Chief Actuary, DoD Office of the Actuary (OACT).** The Chief Actuary, OACT, under the authority, direction, and control of the Director, Defense Human Resources Activity, will:

(1) Annually determine the discount rate for lump sum distributions of retired pay in accordance with procedures in Attachment 2, and recommend to the DASD(MPP) the rate to be promulgated.

(2) Provide analysis and consultation to the Director, Defense Finance and Accounting Service (DFAS) on projected lump sum distributions of retired pay for future years.

**f. Secretaries Concerned.** Secretaries of the Military Departments and the Secretaries concerned, as that term is defined in Section 101 of Title 37, United States Code (U.S.C.), in the case of the Coast Guard, Commissioned Corps of the Public Health Service (USPHS), and Commissioned Corps of the National Oceanic and Atmospheric Administration (NOAA), hereafter referred to as "Secretary concerned" (or as "Service Secretary" for ease of construction) in accordance with Section 101 of Title 37, U.S.C., will:

(1) Develop and maintain guidance establishing policies and procedures in their respective departments to ensure compliance with this memorandum and associated regulations.

(2) Determine the members of their respective departments who are eligible to elect to enroll in the BRS and provide to DFAS, if applicable, required data to allow such elections to occur in accordance with procedures established by the Director, DFAS, to be issued separately.

(3) Implement procedures to notify members who are eligible to elect to enroll in the BRS, in accordance with criteria contained in paragraphs 6.b.(2) through 6.b.(6), of their eligibility and the process for making that election.

(4) Train members of their respective departments who are eligible to elect to enroll in the BRS, as well as all members who enter service on or after January 1, 2018, on all aspects of the BRS using standardized training developed by the ASD(R), and report completion in accordance with separate guidance to be issued by the ASD(R).

(5) Adjudicate requests and/or determine eligibility for extensions of the enrollment period, in the case of a hardship, for electing to enroll in the BRS.

(6) Establish procedures, determine eligibility, determine the timing of payments between 8 and 12 years of service, and set amounts of continuation pay due to eligible members covered by the BRS.

(7) Update personnel and pay systems as necessary to implement procedures outlined in this memorandum.

(8) Notify the Director, DFAS of a Service member's election to receive a lump sum of retired pay, in accordance with section 7.a.(3)(b), no less than 30 days prior to that member's date of eligibility for retired pay.

(9) Establish a TSP account, if one does not already exist, for any member covered by the BRS and make the government's contributions to those members' accounts in accordance with provisions contained in section 7.b. Annually re-enroll those members subject to automatic re-enrollment provisions contained in section 7.b.(4)(d).

**g. Director, DFAS.** The Director, DFAS, will:

(1) Establish and/or maintain a website that will allow eligible members of the Army, Navy, and Air Force to enroll in the BRS and to manage TSP contributions. Maintain an auditable record of enrollments in the BRS made through this website. Notify the Secretary concerned of enrollments by members of their respective departments.

(2) Issue and maintain guidance incorporating policy established in this memorandum to carry-out all aspects of the BRS.

(3) Ensure pay systems are updated as necessary to implement procedures outlined in this memorandum.

(4) Determine the lump sum amounts payable in accordance with this guidance and make lump sum payments of retired pay to members who elect such distributions not later than 60 days after the date of retirement, in the case of a member eligible for a regular retirement, or not later than 60 days after the date upon which the member first becomes entitled to retired pay, in the case of a member eligible for a non-regular retirement.

**5. EFFECTIVE DATE.** This memorandum is effective as of January 27, 2017. Unless otherwise stated, the policies contained herein that implement the BRS shall be effective simultaneous with the effective date of the BRS—January 1, 2018.

## **6. ELIGIBILITY.**

### **a. Grandfathering Under Legacy Retirement Plan.**

(1) All members of the Uniformed Services who have a Date of Initial Entry into Military Service (DIEMS) or Date of Initial Entry into Uniformed Services (DIEUS) on or before December 31, 2017, remain covered by their previous retirement plan until such time as they elect to enroll in the BRS, if eligible to do so in accordance with paragraphs 6.b.(2) through 6.b.(6).

(2) Any retiree who is recalled to active duty is ineligible to elect to enroll in the BRS regardless of any other eligibility criteria. However a member placed on the Temporary Disability Retired List (TDRL) who is later determined fit for duty and reenters active service in accordance with Section 1211 of Title 10, U.S.C., is not considered to be a recalled retiree and may enroll in the BRS if otherwise eligible under criteria outlined in paragraph 6.b.(6).

(3) Any member of a Uniformed Service who is ineligible to elect to enroll in the BRS under provisions outlined in paragraphs 6.b.(2) through 6.b.(6), will remain covered under his or her legacy retirement plan.

**b. Covered Members.** The following members of the Uniformed Services are covered under the provisions of the BRS:

(1) Any member of a Uniformed Service with a DIEMS or DIEUS on or after January 1, 2018.

(2) Any member of the Active Component (AC) of a Uniformed Service who is serving on December 31, 2017, who:

(a) Has a DIEMS/DIEUS date that is on or before December 31, 2017; and,

(b) Has served in a Uniformed Service for fewer than 12 years as calculated from their Pay Entry Base Date (PEBD) (for Army this date is referred to as “pay entry basic date,” for Air Force it is referred to as the “pay date” and for Navy and Marine Corps it is referred to as the “pay entry base date.” Hereafter, it is referred to as PEBD in this memorandum); and,

(c) Elects to enroll in the BRS under provisions outlined in section 9.b.

(3) Any member of the Reserve Component (RC) of a Uniformed Service who is performing reserve component service as a member of the Ready Reserve or on the Active Status List of the Standby Reserve on December 31, 2017, who:

(a) Has a DIEMS/DIEUS date that is on or before December 31, 2017; and,

(b) Is in receipt of basic pay or inactive duty pay under Sections 204 or 206, respectively, of Title 37, U.S.C., on or after December 31, 2017; and,

(c) Has accumulated fewer than 4,320 retirement points, in accordance with the provisions of Section 12733 of Title 10, U.S.C., as of that date; and,

(d) Elects to enroll in the BRS under provisions outlined in section 9.b.

(4) Any member who has signed an agreement to enlist in a Uniformed Service in the Delayed Entry Program, in accordance with Section 513 of Title 10, U.S.C., who:

(a) Has a DIEMS/DIEUS date that is on or before December 31, 2017; and,



(b) Is in receipt of basic pay or inactive duty pay under Sections 204 or 206, respectively, of Title 37, U.S.C., on or after December 31, 2017; and,

(c) Elects to enroll in the BRS under provisions outlined in section 9.b.

(5) Any midshipman or cadet attending an academy of one of the Uniformed Services or the U.S. Merchant Marine Academy, or enrolled in the Senior Reserve Officer Training Corps of one of the Uniformed Services as of December 31, 2017, who has signed an agreement to serve as a commissioned officer in a Uniformed Service upon graduation, who:

(a) Has a DIEMS/DIEUS on or before December 31, 2017; and,

(b) Is in receipt of basic pay or inactive duty pay under Sections 204 or 206, respectively, of Title 37, U.S.C., on or after December 31, 2017; and,

(c) Elects to enroll, following commissioning, in the BRS under provisions outlined in section 9.b.

(6) Any member of a Uniformed Service who was placed on the TDRL on or before December 31, 2017, who:

(a) Is later determined to be physically fit to perform his or her duties; and,

(b) Is reappointed or reenlisted in a component of the Uniformed Services in accordance with Section 1211 of Title 10, U.S.C.; and,

(c) Otherwise meets the criteria to enroll as specified under paragraph 6.b.(2)(b) or 6.b.(3)(c); and,

(d) Elects to enroll in the BRS under provisions outlined in section 9.b.

**7. PROCEDURES FOR IMPLEMENTING COMPONENTS OF THE BLENDED RETIREMENT SYSTEM** The BRS consists of two primary components: a defined benefit annuity and defined contributions to TSP. The following paragraphs discuss the components of the BRS.

**a. Defined Benefit Annuity.**

(1) **Annuitized Retired Pay.** Members of the Uniformed Services covered under the BRS are eligible to receive retired or retainer pay in accordance with all existing provisions of DoD Financial Management Regulation (FMR), Volume 7B, Chapter 1, with the exception that their monthly retired or retainer pay will be calculated using a different formula than under the legacy retirement systems. Monthly retired or retainer pay is the product of multiplying the retired pay base by the years of service multiplier.

(a) **Determining Retired Pay Base.** Retired Pay Base will be calculated under provisions as currently outlined in DoD FMR, Volume 7B, Chapter 3.

(b) Determining Years of Service Multiplier.

1. For a regular retirement, the years of service multiplier is determined by multiplying two percent times the member's years of creditable service, as computed in accordance with Sections 1208 and 1405 of Title 10, U.S.C. The term "years of creditable service" means the number of years of service that are creditable to a member in computing the member's retired or retainer pay, including credit for each full month of service in addition to full years of service.

2. For a non-regular retirement, the years of service multiplier is determined by multiplying two percent times the years of service credited for percentage purposes. In accordance with Department of Defense Instruction (DoDI) 1215.07, as determined under Section 12733 of Title 10, U.S.C., the formula for converting retirement points into years of service credited for percentage purposes is total number of retirement points divided by 360.

3. For a disability retirement under the provisions of Chapter 61 of Title 10, U.S.C., the years of service multiplier is determined by multiplying two percent times the member's years of creditable service, as computed in accordance with Sections 1208 and 1405 of Title 10, U.S.C. However, a member may elect to receive retired pay equal to their retired base pay multiplied by the member's rated percent of disability in accordance with Section 1401 of Title 10, U.S.C. All other provisions of Chapter 61 of Title 10, U.S.C. apply.

(2) Commencement of Retired Annuity Payments.

(a) Regular Retirement. A member of a Uniformed Service who is covered under the BRS and who qualifies for a regular retirement is eligible to begin receiving retired pay on the first day of the month after the month in which service requirements are fully met, in accordance with DoD FMR, Volume 7B, Chapter 1.

(b) Non-Regular Retirement. A member of the Uniformed Services who is covered under the BRS and who qualifies for a non-regular retirement is entitled to pay effective on the first day of the month upon which the member both attains non-regular retirement age and meets the minimum number of years of creditable service, or on the first day of any later month the retiree may elect, in accordance with DoD FMR, Volume 7B, Chapter 1. Retirement age is normally 60 but may be reduced in accordance with criteria for service credit pursuant to DoDI 1215.07.

(3) Lump Sum Payment of Retirement Annuity.

(a) Eligibility. Section 633 of P.L. 114-92 enacts Section 1415 of Title 10, U.S.C., affording a member of a Uniformed Service the option to elect to receive a discounted portion of his or her retired pay as a lump sum. To be eligible to elect the lump sum a member must be covered under the BRS, and qualify for a regular retirement or a non-regular retirement. Members who are retired for a physical disability under provisions of Chapter 61 of Title 10, U.S.C., are not eligible for the lump sum option. A member who is not eligible for BRS or who does not elect to enroll in BRS is not eligible to elect a lump sum payment of his or her retirement annuity.

(b) Election. A member, covered by BRS, who elects to receive a portion of his or her retired pay as a lump sum must make this election, in accordance with procedures prescribed by the Secretary concerned, not later than 90 days before:

1. The date upon which the member retires and receives a regular retirement;  
or,

2. The date upon which the member first becomes eligible to receive retired pay under the non-regular retirement program, in accordance with DoDI 1215.07.

(c) Amount. A member who elects to receive a portion of his or her retired pay as a lump sum may elect to receive the discounted present value of either 25 percent or 50 percent of the gross estimated retired pay, taking into account projected cost of living adjustments, for the period from:

1. The day that member is eligible to begin receiving retired pay; until,

2. The first day of the month following the month during which the retiree attains the age that was the full retirement age, in accordance with Section 416 of Title 42, U.S.C., (the Social Security Act), applicable to that member on the day that member elected the lump sum option.

(d) Discount Rate. The discount rate applied in computing the amount of the lump sum described in 7.a.(3)(c) will be determined and published in accordance with procedures specified in Attachment 2 of this memorandum.

(e) Installment Payments. A member who elects to receive a lump sum payment of his or her retired pay may elect to receive this payment in up to four annual installments over no more than 4 years.

(f) Timing of Payments. A member who elects installment payments in accordance with section 7.a.(3)(e) will receive equal lump sum distributions payable each year on the anniversary of the first installment; the first installment of which will be paid no later than 60 days after:

1. The date on which that member retires if eligible for a regular retirement;  
or,

2. The date on which the member first becomes eligible to begin receiving retired pay if eligible for a non-regular retirement.

(g) Restoration of Full Annuity Payment. The retired pay of a member who elects to receive a lump sum payment of their retired pay in accordance with 7.a.(3)(b) will be restored to its full, monthly annuitized amount as of the first day of the month following the month in which the member attains the full retirement age that was applicable to that member on the day that member elected the lump sum option, in accordance with Section 416 of Title 42, U.S.C.

(h) Relationship to Disability Compensation. Section 633 of P.L. 114-92, modified Section 5304 of Title 38, U.S.C. (“Prohibition against duplication of benefits”), to establish that a member electing to receive a portion of his or her retired pay as a lump sum may not concurrently receive Department of Veteran Affairs (VA) disability compensation, except under specified circumstances. Accordingly:

1. Per Section 633 of P.L. 114-92, which amended Section 5304 of Title 38, U.S.C., the VA will withhold disability payments to any retiree who elects to receive a portion of their retired pay as a lump sum until the amount withheld (i.e., not paid to the retiree on a monthly basis) equals the gross amount of the lump sum payment received by that retiree.

2. Once the amount of VA disability compensation withheld, in accordance with paragraph 7.a.(3)(h).1., equals the amount previously received as a lump sum, the retiree is considered to have fully offset the lump sum distribution. The retiree must then agree to waive a portion of each month’s future retired pay, equal to the amount of the VA disability compensation to which he or she is now entitled, to begin receiving that VA disability compensation in accordance with Sections 5304 and 5305 of Title 38, U.S.C.

3. A retiree who is eligible for Concurrent Retirement and Disability Payment (CRDP) in accordance with Section 1414 of Title 10, U.S.C., due to a service-connected disability rating of 50 percent or more, is entitled to be paid both his or her VA disability compensation and his or her retired pay without regard to the required offsets described in Section 5304 of Title 38, U.S.C., and paragraph 7.a.(3)(h).1. of this memorandum. Accordingly retirees who qualify for CRDP and who elect to receive a portion of their retired pay as a lump sum are not subject to withholding of VA disability compensation upon receipt of a lump sum payment.

4. A retiree who would otherwise be eligible for Combat-Related Special Compensation (CRSC) in accordance with Section 1413a of Title 10, U.S.C., remains subject to the provisions of Sections 5304 and 5305 of Title 38, U.S.C., requiring a waiver of retired pay before a retiree can receive VA disability compensation, as discussed in paragraph 7.a.(3)(h).1. Specific policies and procedures for payment of CRSC to members who elect a lump sum of retired pay will be addressed in a subsequent memorandum to be issued by the USD(P&R).

(i) Effect on Survivor Benefit Premium. A member who elects to receive a lump sum payment of his or her retired pay also remains eligible to elect to cover their spouse or other dependents, or qualified insurable interests through the Survivor Benefit Plan. The manner in which premiums are collected in the event a member elects to receive a lump sum distribution of their retired pay, and the consequent payment of benefits in the event of that member’s death, will be addressed in forthcoming guidance including the next update to DoDI 1332.42, “Survivor Annuity Program Administration.”

(j) Disputes. Members who accept the lump sum distribution, as determined, may not seek review of, or otherwise retrospectively challenge, the amount of the lump sum, particularly in regard to deviations from the cost-of-living adjustments, actuarial assumptions, or other factors used in computing this amount.

(k) Division of Retired Pay. Any lump sum payment of retired pay remains subject to the conditions of Section 1408 of Title 10, U.S.C., with consideration to court orders.

#### **b. Thrift Savings Plan.**

(1) **General.** Members of the Uniformed Services participating in TSP will be governed by the laws applicable to TSP, the Internal Revenue Code, and regulations as set forth by the Federal Retirement Thrift Investment Board (FRTIB) and the Internal Revenue Service (IRS). This memorandum provides interim guidance related to changes enacted under BRS and will be incorporated into future FRTIB regulations.

(2) **Prior Participation in TSP.** A member of a Uniformed Service who previously contributed to TSP prior to the implementation of the BRS, and who elects to enroll in the BRS in accordance with paragraph 9.b. of this memorandum, will maintain his or her existing account in the TSP but must re-affirm his or her individual contribution percentage upon electing to enroll in the BRS. No prior contributions will be matched although the balance of the TSP account will carry over following enrollment in the BRS.

(3) **Establishing a TSP Account.** The Secretary concerned will establish a TSP account, if one does not already exist, for all members of the Uniformed Services who are enrolled in BRS by virtue of their accession into the Uniformed Services on or after January 1, 2018, and all members who elect to enroll in the BRS in accordance with procedures outlined in paragraph 9.b. The initial individual and government contributions to TSP will occur no later than:

(a) The beginning of the pay period following the member's 60th day of service as calculated from PEBD, for those members who are enrolled in BRS by virtue of their accession into the Uniformed Services on or after January 1, 2018; or,

(b) The beginning of the pay period following the election to enroll in the BRS for those members who elect to enroll in accordance with procedures outlined in paragraph 9.b.

#### **(4) Individual Contribution.**

(a) A member enrolled in BRS by virtue of his or her accession into a Uniformed Service on or after January 1, 2018, will be automatically enrolled in TSP at the level of a 3 percent individual contribution from his or her monthly basic pay or inactive duty pay. This amount will be contributed to his or her TSP account beginning with the first pay period following the member's 60<sup>th</sup> day of service as calculated from PEBD.

(b) A member of a Uniformed Service who elects to enroll in BRS in accordance with procedures outlined in paragraph 9.b. will contribute to TSP at the individual contribution percentage that the member elects at the time of enrollment in the BRS. This amount will be contributed to his or her TSP account beginning with the first pay period following election.

(c) A member automatically enrolled in accordance with paragraph 7.b.(4)(a) may adjust the individual contribution amount at any time before or after the initial deduction. There is no minimum mandatory contribution amount. Members of the Uniformed Services will follow

all regulations prescribed by the IRS and the FRTIB when requesting a refund of, or adjusting the amount of, individual contributions.

(d) If a member subject to the automatic enrollment described in paragraph 7.b.(4)(a) declines this automatic enrollment and that member's contribution from his or her pay in the final full pay period of the year is 0 percent, that member will be re-enrolled January 1 of the following calendar year at a 3 percent individual contribution rate from the member's basic pay, in accordance with Section 632 of P.L. 114-92. The automatic individual contribution will be deducted in the first full pay period of that year. Note that this provision does not apply if the member otherwise remains enrolled to contribute from their pay at a percentage other than zero, but stopped contributing during the previous year because the member reached the maximum annual contribution threshold allowed under IRS regulation.

(e) A member who declines automatic enrollment is one who:

1. Is subject to automatic enrollment as described in paragraph 7.b.(4)(a);
2. Stops automatic contributions by reducing the individual contribution to 0 percent; and,
3. Remains at 0 percent individual contribution rate for the final full pay period of the calendar year unless by reason of reaching the maximum annual contribution threshold.

(f) Automatic re-enrollment per paragraph 7.b.(4)(d) will occur each year of a member's career in which the criteria in paragraph 7.b.(4)(e) are met.

(g) A member may decline the annual automatic re-enrollment described in paragraph 7.b.(4)(d) for the following year no earlier than December 1 of the year in which they are determined to be subject to automatic re-enrollment in accordance with paragraph 7.b.(4)(e).

(h) A member's individual contribution to TSP is treated, by default, as a "traditional" tax-deferred contribution, not Roth, unless the member elects to designate all or part of his or her contribution as Roth.

#### (5) Service Secretary Contributions for Members Whose DIEMS or DIEUS is ON or AFTER January 1, 2018

(a) Commencing with the pay period that follows a Uniformed Service member's 60th day of service, as calculated from PEBD, the Secretary concerned will automatically contribute to that Service member's TSP account, at no cost to the member and without regard to the amount the Service member contributes, an amount equal to:

1. One percent of basic pay earned by that member during that pay period for active service; and/or,
2. One percent of inactive duty pay earned by that member during that pay period for inactive duty training (IDT).

(b) The 1 percent automatic contribution by the Secretary concerned will continue for each pay period in which a member receives either basic pay or inactive duty pay, or both, through the end of the pay period during which the member completes 26 years of service, as calculated from his or her PEBD.

(c) Commencing with the pay period that follows a Uniformed Service member's completion of 24 months of service, as calculated from his or her PEBD, the Secretary concerned will contribute an amount that matches the Service member's individual contribution from basic pay and/or inactive duty pay to TSP in accordance with Table 1.

**Table 1: Automatic and Matching Contributions**

<b>Individual Contribution Rate of Basic Pay or Inactive Duty Pay</b>	<b>Government Automatic Contribution Rate of Basic Pay or Inactive Duty Pay</b>	<b>Government Matching Contribution Rate of Basic Pay or Inactive Duty Pay</b>	<b>Total Rate of TSP Monthly Contribution of Basic Pay or Inactive Duty Pay</b>
0%	1%	0%	1%
1%	1%	1%	3%
2%	1%	2%	5%
3%	1%	3%	7%
4%	1%	3.5%	8.5%
5%	1%	4%	10%

(d) No matching contribution, as described in paragraph 7.b.(5)(c), will be made to a Service member's TSP account after the pay period during which the member completes 26 years of service, as calculated from his or her PEBD.

**(6) Service Secretary Contributions for Members Whose DIEMS or DIEUS is BEFORE January 1, 2018.**

(a) Commencing with the pay period that follows a Uniformed Service member's election to enroll in the BRS, in accordance with procedures in paragraph 9.b., the Secretary concerned will automatically contribute to that Service member's TSP account, at no cost to the member and without regard to the amount the Service member contributes, an amount equal to:

1. One percent of basic pay earned by that member during that pay period for active service; and/or,
2. One percent of inactive duty pay earned by that member during that pay period for IDT.

(b) This 1 percent automatic contribution by the Secretary concerned will continue for each pay period in which a member receives either basic pay or inactive duty pay, or both, through the end of the pay period during which the member completes 26 years of service, as calculated from his or her PEBD.

(c) Commencing with the pay period that follows a Uniformed Service member's election to enroll in the BRS, in accordance with procedures in paragraph 9.b., the Secretary concerned will contribute an amount that matches the individual Service member's individual contribution of basic pay and/or inactive duty pay to TSP in accordance with Table 1.

(d) No matching contribution, as described in paragraph 7.b.(6)(c), will be made to a Service member's TSP account after the pay period during which the member completes 26 years of service, as calculated from his or her PEBD.

**(7) Vesting of Individual Contributions.** A member's individual contributions are immediately vested upon payment to TSP. Subsequent earnings on those contributions are also immediately vested when the earnings accrue.

**(8) Vesting of Service Secretary Contributions.** The two forms of government contributions to TSP are subject to different vesting rules:

(a) The government's 1 percent automatic contributions described in paragraphs 7.b.(5)(a) or 7.b.(6)(a) become fully-vested on the first day of the 25th month of service, as calculated from a Service member's PEBD, in accordance with Section 8432(g)(2) of Title 5, U.S.C. Members who separate from a Uniformed Service before this date forfeit the government's 1 percent automatic contributions and any earnings on those contributions.

(b) Any government matching contribution, as described in paragraphs 7.b.(5)(c) or 7.b.(6)(c), is fully-vested upon receipt in the member's TSP account in accordance with Section 8432(g)(1) of Title 5 of U.S.C., regardless of accrued service. Any earnings on government contributions are immediately vested when they accrue.

**(9) Carry-over of Individual TSP Elections.**

(a) A member covered under the BRS who separates from a component of the Uniformed Services, as defined by Section 211 of Title 37, U.S.C., and later re-affiliates with any component of a Uniformed Service, will be re-enrolled in TSP at an individual contribution of 3 percent of his or her monthly basic pay or 3 percent of inactive duty pay regardless of any previous contribution elections made prior to separation.

(b) This auto enrollment of a re-entrant at a 3 percent individual contribution rate will occur no later than the first pay period following re-entry.

(c) A member covered under BRS who re-enters service after a break in service and who previously qualified for the government 1 percent automatic contribution, under provisions outlined in paragraph 7.b.(5)(a) or 7.b.(6)(a), will resume receiving the government 1 percent automatic contribution into his or her TSP account no later than the first pay period after re-entry.

(d) A member covered under BRS who re-enters service after a break in service and who previously qualified for government matching contributions under provisions outlined in paragraph 7.b.(5)(c) or 7.b.(6)(c), will resume receiving agency matching contributions into his or her TSP account concurrent with re-enrollment.



(10) **TSP Elections for Transitioning RC Members.** Members of the RC covered under BRS are considered continuous participants in BRS while they remain in a paid status. Such members will not be re-enrolled at the automatic 3 percent individual contribution level each time they transition from a paid status in the Selected Reserve to active service or from active service back to a paid status in the Selected Reserve. Their previously-elected TSP contribution levels will carry-over through transitions related to activation and deactivation, unless and until the member elects to modify their own contribution level.

(11) **Default Fund.** Unless a specific investment election is made by a Service member, a member's individual contribution and the government's contributions to TSP will be invested, on behalf of the member, in an age-appropriate, target date asset allocation investment fund, commonly known as a "Lifecycle" fund.

(12) **Default Type of Individual Contribution.** An individual's contributions to TSP, as described in paragraph 7.b.(4) are treated, by default, as "traditional" tax-deferred contributions, not as Roth, after-tax contributions. A member may elect to designate all or part of his or her individual contributions as Roth. The Service Secretary contributions described in paragraphs 7.b.(5) and 7.b.(6) are always tax-deferred "traditional" contributions.

## **8. CONTINUATION PAY.**

**a. Background.** In addition to provisions related to retirement compensation and TSP, P.L. 114-92 enacted a continuation pay to ensure sufficient retention at critical longevity points in the force structure. Continuation pay will be enacted under Section 356 of Title 37, U.S.C., effective on January 1, 2018, which was further modified by P.L. 114-328. Members of the Uniformed Services who are covered by the BRS are eligible to receive a one-time, mid-career bonus payment in exchange for an agreement to perform additional obligated service. This one-time bonus payment is in addition to any other career field-specific incentives or retention bonuses.

**b. Eligibility.** The following members are eligible to receive continuation pay:

(1) **AC.** Any member who:

- (a) Is covered under the BRS; and,
- (b) Has completed not less than 8 and not more than 12 years of service, as computed from that member's PEBD; and,
- (c) Is eligible to enter into an agreement to serve not less than an additional 3 years in the AC.

(2) **RC.** Any member who:

- (a) Is covered under the BRS; and,
- (b) Has completed not less than 8 and not more than 12 years of service as computed from that member's PEBD; and,

(c) If elected to enroll in the BRS in accordance with section 6.b.(3), as calculated under provisions of Section 12733 of Title 10, U.S.C., did not complete more than 12 years of service as calculated from PEBD prior to enrollment in the BRS.

(d) Is a member of the Selected Reserve, or otherwise a member of the Ready Reserve in a status in which the member is eligible to receive basic pay or inactive duty pay, when otherwise eligible in accordance with criteria published by the Secretary concerned as specified in paragraph 8.f.; and,

(e) Is eligible to enter into an agreement to serve not less than an additional 3 years in the Selected Reserve.

**c. Amount.** The Secretary concerned is responsible for determining the continuation pay amount offered to members of his or her department covered by the BRS, the timing of when continuation pay is offered, and the duration of the associated additional obligated service. The amount payable will fall within the range of:

(1) **AC.** Not less than 2.5 times and not more than 13 times the monthly basic pay of that member based on the member's current paygrade and years of service.

(2) **RC.** The equivalent amount, as if the member was on active duty, which is not less than 0.5 times and not more than 6 times the monthly basic pay of a member of the same grade and years of service on active duty. An RC member performing active Guard and Reserve service (as defined in Section 101(d)(6) of Title 10, U.S.C.), will be paid continuation pay at the rate of an AC member subject to agreement to continue serving not less than an additional 3 years in active service (as defined in Section 101(d)(3) of Title 10, U.S.C.

**d. Obligated Service.**

(1) A member who accepts continuation pay and enters into an agreement will serve not less than 3 years of additional service in the component in which they were serving at the time of agreement, commencing upon acceptance by the Secretary concerned of the agreement to continue serving.

(2) This obligated service will run concurrently with any other service obligation, unless other service obligations incurred specifically preclude concurrent obligations.

(3) RC members will perform obligated service in the Selected Reserve, subject to conditions and requirements prescribed by the Secretary concerned.

**e. Payment.** A member who qualifies for continuation pay may elect to receive the payment in a single lump sum or elect a series of equal installment payments, not to exceed four annual payments over 4 consecutive years.

**f. Timing.** The Secretary concerned will pay continuation pay to eligible members, in accordance with section 8.b., no earlier than upon completion of 8 years of service and no later than upon completion of 12 years of service, as calculated from that member's PEBD, and upon acceptance by the Secretary concerned of the member's agreement to obligate for no less than 3

additional years of obligated service. The Secretary concerned will publish criteria for determining when members are eligible for continuation pay.

**g. Non-availability.** Members who incur a period of extended absence, subject to the approval of the Secretary concerned, which precludes meeting the terms of obligated service shall have installment payments suspended during this period. If subsequently re-assigned to the member's previous status, or a new status at the discretion of the Secretary concerned, installment payments of the continuation pay may resume and the term of service extended accordingly to ensure fulfillment of the original agreement period. The date of completion of the obligated service shall be adjusted for periods of authorized absence. Failure to meet reinstatement criteria shall result in termination of the continuation pay and repayment, as appropriate.

**h. Repayment.** A member who received continuation pay but who fails to complete the period of obligated service described in paragraph 8.d., or who fails to maintain the skills for which an amount greater than the minimum amount described in paragraph 8.c. was paid, is subject to full or partial repayment provisions in accordance with Section 373 of Title 37, U.S.C., and the DoD FMR, Volume 7A, Chapter 2.

**i. Authority.** The Secretary concerned is authorized to establish procedures, determine eligibility, determine timing of payments between 8 and 12 years of service, and set amounts of continuation pay due to eligible members covered by the BRS.

## **9. ENROLLMENT.**

### **a. Enrollment Period.**

(1) A member of a Uniformed Service who qualifies to enroll in the BRS under any of the provisions outlined in paragraphs 6.b.(2) through 6.b.(6) may make the election to enroll on or after January 1, 2018, through December 31, 2018.

(2) A member who, but for a break in service, would otherwise be eligible to elect to enroll in BRS under any of the provisions of paragraphs 6.b.(2) through 6.b.(6) who returns to service with a Uniformed Service on or after December 2, 2018, following a break in service that commenced prior to December 1, 2018, may make an election to enroll in the BRS:

a. For members returning to the AC or affiliating in a paid status with the RC after separating from the AC, within 30 days of reentry; or,

b. For members returning to a paid status in the RC following a break in service in the RC, no later than December 31, 2018, or 30 days from the date of reentry, whichever is later.

(3) The terminal date of the election period may be extended, by approval of the Secretary concerned, in certain situations as outlined in section 9.d.

## **b. Procedures for Enrollment.**

(1) A member of a Uniformed Service who is eligible to enroll in the BRS under any of the provisions outlined in 6.b.(2) through 6.b.(6), must complete the mandatory training on opting into the BRS provided by the ASD(R), in accordance with procedures prescribed by the Secretary concerned, prior to making an election to enroll.

(2) For members of the Army, Navy, and Air Force, enrollment in the BRS shall be completed on the “myPay” website (<https://mypay.dfas.mil/>) in accordance with procedures separately promulgated by DFAS. For members of the Marine Corps, enrollment in the BRS shall be accomplished in accordance with procedures to be promulgated by the Secretary of the Navy. Members of the Uniformed Services of the Coast Guard, USPHS, and NOAA will follow enrollment procedures separately established by the Secretary concerned.

(3) The decision to elect to enroll in the BRS is irrevocable.

(4) Prior to making the election to enroll in the BRS, members of the Uniformed Services who are eligible under provisions outlined in paragraphs 6.b.(2) through 6.b.(6), and who choose to enroll in the BRS, must affirm on the myPay website, or through procedures specified by the Secretary concerned as detailed in paragraph 9.b.(2), that they have completed the mandatory training referred to in paragraph 9.b.(1), and that they acknowledge the decision to enroll in the BRS is irrevocable.

## **c. Approval Authority.**

(1) The Secretary concerned is the approval authority for determining eligibility to enroll in BRS under provisions outlined in paragraphs 6.b.(2) through 6.b.(6) and for granting hardship extensions of the enrollment period under section 9.d.

(2) Authority to approve discretionary hardship extensions of the enrollment period outlined in section 9.d. may be delegated by the Secretary concerned:

(a) For specified discretionary reasons 9.d.(2)(a) through 9.d.(2)(f), the commander of the Uniformed Services’ headquarters-level personnel or human resources command. This authority may be further delegated no lower than the level of a general officer, flag officer, or senior executive within that same command.

(b) For non-specified discretionary situations that meet the requirements of paragraph 9.d.(2)(g), no lower than the level of the assistant secretary of the department responsible for manpower and reserve affairs.

(3) The ASD(M&RA), under the authority, direction, and control of the USD(P&R), has the authority to grant additional automatic hardship extensions or to grant discretionary hardship extensions in situations involving members of more than one Military Department within the DoD.

**d. Hardship Extensions of Enrollment Period.** In accordance with Section 631 of P.L. 114-92, the Secretary concerned may extend the election period for enrollment in the BRS for a

member of a Uniformed Service who experiences a hardship. This authority is limited to extending the time period for enrollment in the BRS and does not provide authority to expand or change the categories of eligibility listed in paragraphs 6.b.(2) through 6.b.(6), nor does it create the authority to enroll an otherwise eligible member who had the opportunity to elect to enroll in the BRS during 2018 but who chose not to do so, nor does it allow for retroactive TSP contributions. Specified hardships are classified as either automatic or discretionary, and may be executed in accordance with the following procedures:

(1) **Automatic Extensions.** An automatic hardship extension of 30 days may be granted and executed by any command upon determination by the local commander (O-6 or above or civilian equivalent) that the member of the Uniformed Service was:

(a) A member of the Individual Ready Reserve (IRR) or the Active Status List of the Standby Reserve who was performing reserve component service as of December 31, 2017, and is qualified under paragraph 6.b.(3), but who did not perform duty in a paid status during the enrollment period and has not previously been afforded the opportunity to elect to enroll in the BRS, upon the first instance the member is:

1. Activated under any provision of Federal law (the extension of the enrollment period is 30 days regardless of the length of the activation period); and/or,

2. Affiliated in a paid status with the Selected Reserve.

(b) A member of a Uniformed Service who signed an agreement to enlist under provisions of the Delayed Entry Program; and who,

1. Is eligible to elect to enroll in the BRS under provisions of paragraph 6.b.(4); and,

2. Has a PEBD on or after September 1, 2018.

(c) An officer who is commissioned through an academy of one of the Uniformed Services or Senior Reserve Officer Training Corps of one of the Uniformed Services, may make the election to enroll in the BRS within 30 days of that officer's first day performing actual duty if that officer:

1. Is eligible to make the election to enroll in the BRS under the provisions outlined in paragraph 6.b.(5); and,

2. Has a commissioning date on or after December 1, 2018.

(d) A member of a Uniformed Service who otherwise would have been eligible to enroll in the BRS during calendar year 2018, under the provisions outlined in paragraphs 6.b.(2) or 6.b.(3), and who was participating in the Career Intermission Pilot Program but does not return to duty until December 1, 2018, or later, upon that member's return to active service.

(2) **Discretionary Hardship Extensions.** A discretionary hardship extension of the enrollment period may be granted, in accordance with procedures outlined by the Secretary

concerned, upon determination by the Secretary concerned that a member of a Uniformed Service experienced a hardship due to:

(a) Deployment for 30 days or more that is inclusive of December 31, 2018, which, in the determination of the Secretary concerned, prevented the member from having access to all resources available to make financial or retirement decisions.

(b) Court proceedings or court orders that prevent a member from making financial or retirement decisions during the enrollment period.

(c) Illness or injury that substantially impacts, in the determination of the Secretary concerned, a member's ability to make financial or retirement decisions during the enrollment period.

(d) Failure of the Secretary concerned to notify a member of that member's eligibility to elect to opt into the BRS at least 60 days prior to the conclusion of the enrollment period.

(e) Inability to complete the mandatory "Opt-In" training, described in paragraph 9.b.(1), due to circumstances beyond the control of the member.

(f) Inability to access the website or follow the designated procedures for making the election, described in paragraph 9.b.(2), during the election period due to circumstances beyond the reasonable control of the member.

(g) Other extraordinary or exceptional circumstances as determined by the Secretary concerned.

**e. Erroneous Enrollment.** If it is later discovered by the Secretary concerned that a member, who should not have been eligible to be enrolled or to elect to enroll in the BRS under any of the provisions outlined in paragraphs 6.b.(1) through 6.b.(6), was erroneously enrolled in the BRS, their enrollment will be voided. Such members will be placed under the correct retirement system upon discovery of the error. Any agency TSP contributions to that member's account will be handled in accordance with FRTIB regulations. The Secretary concerned shall also initiate action to obtain repayment, in accordance with Section 373 of Title 37, U.S.C., and the DoD FMR, Volume 7A, Chapter 2, of any continuation pay bonus paid in accordance with Section 8 of this memorandum to a member erroneously enrolled in the BRS.

**f. Training on BRS for New Accessions with DIEMS/DIEUS on or after January 1, 2018.** A member of the Uniformed Services who is enrolled in the BRS by virtue of their eligibility under paragraph 6.b.(1) must complete mandatory training on the BRS, to be provided by the ASD(R), in accordance with procedures prescribed by the Secretary concerned, within that member's first 365 days of service following PEBD.

## 10. DISCONTINUATION OF CAREER STATUS BONUS.

**a. General.** In accordance with Section 631 of P.L. 114-92, Section 354 of Title 37, U.S.C., was amended to discontinue authorization of any new payments of the Career Status Bonus (CSB) as of January 1, 2018. The one-time \$30,000 CSB payment is currently offered to active duty members upon completion of 15 years of creditable service in exchange for both an agreement to continue serving to at least 20 years and a subsequent reduction in that member's retired pay multiplier for each year less than 30 years that the member serves, in accordance with Section 1409 of Title 10, U.S.C. The election of the CSB places that member under the "REDUX" retirement plan rather than the "High-3" system.

**b. Timing.** No new CSB agreement may be entered into after December 31, 2017 and, accordingly, no member may elect a reduction in that member's retirement multiplier (i.e., convert to the REDUX retirement plan) as a consequence of electing a CSB after such date. An agreement to elect a reduced retirement multiplier in exchange for a CSB made on or prior to December 31, 2017, remains in effect. Payments pursuant to a CSB agreement entered into on or before December 31, 2017, may continue to be made on or after January 1, 2018. Letters to notify currently-serving active duty members of their eligibility to make a CSB election will be discontinued as of July 1, 2017.

## 11. GLOSSARY

AC	active component
ASD(M&RA)	Assistant Secretary of Defense for Manpower and Reserve Affairs
ASD(R)	Assistant Secretary of Defense for Readiness
BRS	Blended Retirement System
CPI	Consumer Price Index
CRDP	Concurrent Retirement and Disability Payment
CRSC	Combat-Related Special Compensation
CSB	Career Status Bonus
DASD(MPP)	Deputy Assistant Secretary of Defense for Military Personnel Policy
DFAS	Defense Finance and Accounting Service
DIEMS	date of initial entry into military service
DIEUS	date of initial entry into uniformed service
DoD	Department of Defense
DoDI	Department of Defense Instruction
FMR	Financial Management Regulation
FRTIB	Federal Retirement Thrift Investment Board
FY	Fiscal Year
IDT	inactive duty training
IRR	Individual Ready Reserve
IRS	Internal Revenue Service
NDAA	National Defense Authorization Act
NOAA	National Oceanic and Atmospheric Administration
OACT	Office of the Actuary
PEBD	pay entry base date
P.L.	public law
RC	reserve component
TDRL	Temporary Disability Retired List
TSP	Thrift Savings Plan
U.S.C.	United States Code
USD(P&R)	Under Secretary of Defense (Personnel and Readiness)
USPHS	United States Public Health Service
VA	Department of Veteran Affairs



**12. DEFINITIONS.** Unless otherwise noted, these terms and their definitions are for the purpose of this memorandum only.

**Active service:** Service on active duty or full-time National Guard duty as defined in Section 101(d)(3) of Title 10, U.S.C.

**Active Status List of the Standby Reserve:** Defined in DoDI 1235.09, “Management of the Standby Reserve.”

**Break in service:** A period of time during which a Service member is transferred to the inactive status list or the inactive National Guard, or is discharged upon completion of all service obligations and returns to a civilian status for longer than 24 hours.

**Cliff-vested:** A vesting system in which the recipient becomes fully vested at a specified time rather than becoming partially vested in increasing amounts over an extended period of time.

**DIEMS or DIEUS:** Date an individual was initially enlisted, inducted, or appointed in a regular or reserve component of a Uniformed Service as a commissioned officer, warrant officer, or enlisted member. For cadets/midshipmen at one of the Military Service Academies, it is the date of entry into the academy; for ROTC cadets/midshipmen it is the date of scholarship contract or date the cadet/midshipman began the advanced ROTC course, whichever is earlier; and for members of the delayed entry program it is the date an enlistment contract is signed, regardless of when the member actually enters active duty. Breaks in service do not affect a DIEMS/DIEUS date.

**Defined benefit annuity:** A pension plan in which an employer/sponsor provides a specified monthly benefit upon retirement that is predetermined by a formula based on the individual’s earnings history and tenure of service.

**Disability Compensation:** Compensation paid to a veteran by the VA as a recompense for loss, injury, or suffering from uniformed service duty.

**Discount rate:** Economic rate used to discount a stream of future cash flows to their present (i.e., “current”) value.

**Full Retirement Age:** Age upon which a person is considered eligible for full retirement under Section 416(I) of Title 42, U.S.C., the “Social Security Act.” It is currently age 67 for most members of the Uniformed Service with the exception of those born before 1960.

**Grandfathering:** A provision in which an old law or regulation continues to apply to some existing individuals even after the enactment of a new law or regulation.

**IRR:** Defined in DoDI 1235.13.

**Legacy retirement systems:** Those military retirement systems in effect prior to implementation of the BRS, including the “Final Pay,” “High-3” (also known as the “High-36”), and CSB/REDUX systems.

**Non-Regular Retirement:** As defined in Chapter 1223 of Title 10, U.S.C., a non-regular retirement is earned based on achieving a minimum threshold of creditable years of service as a RC member. A member who qualifies for a non-regular retirement is not eligible to begin receiving retired pay until attaining the age of 60, or in some cases a lesser age depending on performance of qualifying creditable service in accordance with DoDI 1215.07.

**Paid status:** Receipt of basic pay or inactive duty pay under Sections 204 or 206, respectively, of Title 37, U.S.C.

**Pay period:** Defined in the DoD FMR, Volume 5; a pay period is monthly for military personnel serving on active duty and is periodic, based on completion of inactive duty, for Reserve Component military personnel serving on inactive duty.

**Pay Entry Base Date:** Date that denotes how much of an individual’s service is creditable towards longevity for pay purposes. This date can be adjusted based on breaks in service. It is referred to by the Army as the “pay entry basic date” and by the Air Force as the “pay date.”

**Ready Reserve:** Military members of the Reserve and National Guard, organized in units, or as individuals, liable for recall of active duty to augment the active components in time of war or national emergency in accordance with Sections 12301(a) and 12302 of Title 10, U.S.C.

**REDUX:** Members who entered the AC after July 31, 1986, but before January 1, 2018, have the option, upon completing their 15th year of service, to elect a reduction in their retirement multiplier in exchange for receiving the Career Status Bonus. This retirement plan is known as “REDUX.” The reduction in the retirement multiplier is 1 percent for each full year of creditable service less than 30, and 1/12th of 1 percent for each full month of creditable service less than a full year. Additionally, retirees covered by REDUX receive a decreased annual cost of living increase compared to other military retirement plans. That cost of living increase is equal to 1 percentage point less than the Consumer Price Index (CPI), when the CPI exceeds 1 percent.

**Regular Retirement:** A retirement earned based on performing a minimum number of creditable years of active duty service in accordance with Chapter 71 of Title 10, U.S.C. Members who earn a regular retirement begin receiving retired pay on the 1<sup>st</sup> of the month that follows the month of their retirement.

**Retired Reserve:** Defined in Joint Publication 1-02.

**Secretary concerned:** Defined in Section 101 of Title 37, U.S.C.

**Senior Reserve Officer Training Corps:** College scholarship program leading to a commission in one of the Uniformed Services.

**Separation:** Defined in Section 211 of Title 37, U.S.C.

**Uniformed Services:** In accordance with Section 101 of Title 37, U.S.C.; the Army, Navy, Air Force, Marine Corps, Coast Guard, NOAA, and USPHS.

**Vesting:** Process by which an individual accrues non-forfeitable rights over employer-provided incentives or employer contributions made to the individual's qualified retirement account.

### **13. REFERENCES.**

DoD 7000-R, Volume 7B, "DoD Financial Management Regulations," November 2015  
DoD Instruction 1215.07, "Service Credit for Non-Regular Retirement," January 24, 2013  
Incorporating Change 2, May 24, 2016  
DoD Directive 1235.09, "Management of the Standby Reserve," February 12, 2014  
DoD Directive 5124.02, "Under Secretary of Defense (Personnel and Readiness)," June 23, 2008  
Public Law 114-92, "The National Defense Authorization Act for Fiscal Year 2016," November  
25, 2015  
United States Code, Title 5, Section 8432  
United States Code, Title 10  
United States Code, Title 37  
United States Code, Title 42, Section 416

# Attachment

2

## **ATTACHMENT 2 – PROCEDURES FOR DETERMINING AND PUBLISHING THE LUMP SUM DISCOUNT RATE**

**1. GENERAL.** A member of a Uniformed Service who elects to receive either 25 percent or 50 percent of that member's retired pay as a lump sum in accordance with paragraph 7.a.(3) of Attachment 1, will receive the discounted present value of that portion of his or her retired pay as specified in Section 1415 of Title 10, United States Code (U.S.C.).

### **2. DETERMINING THE DISCOUNT RATE.**

#### **a. Discount Rate.**

(1) In computing the amount of the lump sum described in 7.a.(3)(c) of Attachment 1, the discounted present value will be determined in accordance with the rate that is an inflation-adjusted, 7-year average of the Department of Treasury High-Quality Market (HQM) Corporate Bond Spot Rate Yield Curve at a 23-year maturity plus an adjustment factor of 4.28 percentage points. The inflation-adjustment applied is the Department of Treasury "Breakeven Inflation Spot Rate Yield Curve."

(2) The rate defined in paragraph 2.a.(1) will be calculated by the Chief Actuary, Department of Defense Office of the Actuary and promulgated annually by the Deputy Assistant Secretary of Defense for Military Personnel Policy (DASD(MPP)) no later than June 1 of each year to be effective as of January 1 of the succeeding year. The rate promulgated on June 1 of each year will be the Department of Treasury's published yield curves as of March of that year averaged with the preceding 83 months plus the adjustment factor of 4.28 percentage points. Accordingly, the initial discount rate to be used for 2018, as described in paragraph 2.a.(1), will be published on June 1, 2017.

(3) The 4.28 percentage point adjustment factor added to the HQM market-based benchmark is intended to account for:

(a) Observed military personal discount rates as specified in Section 1415(b)(2)(B)(i) of Title 10, U.S.C.; and,

(b) Unique aspects of military retirement programs in comparison to civilian pension programs, such as the need to retain a certain percentage of members beyond when those members first become eligible to receive retired pay.

(4) The discount rate formula is not adjusted based on a mortality assumption and no provision for adverse selection will be applied in computing the amount of the lump sum.

**b. Applicability.** The promulgated rate in effect on the day a member is eligible and approved to begin receiving retired pay will be the rate applied to that member's lump sum election.

### **3. REVISING THE DISCOUNT RATE FORMULA.**

**a. Periodic Review of the Formula.** The formula described in paragraph 2.a.(1), including both the HQM market-based benchmark and the adjustment factor, will be reviewed on the following basis:

- (1) In 2017, if required;
- (2) In 2019 following completion of the election period for members eligible to opt into the BRS;
- (3) At least every 4 years following 2019, never exceeding more than 4 years between reviews; and,
- (4) At the request of a Secretary concerned.

**b. Automatic Review of the Formula.** The formula described in paragraph 2.a.(1), including both the HQM market-based benchmark and the adjustment factor, will be reviewed when the inflation-adjusted Department of Treasury-published HQM Corporate Bond Spot Rate Yield Curve at the 23-year maturity fluctuates greater than (plus or minus) 1 percentage point from one year to the next. The DASD(MPP) will convene this review, and, if necessary, publish an update to Attachment 2 of this memorandum.