Retirement Planning for Current Active Duty Military

No matter how far off your military retirement is, there are programs and benefits you can learn about now and actions you can take that will make your life easier when it does come time to separate. Preparing for retirement head on and with a plan is one of the most important tasks you can set for yourself during your working years.

As a current servicemember, you have multiple options available to you that are not available to civilians that can help you craft your retirement plan. Taking advantage of the Thrift Savings Plan, knowing what to expect in terms of retirement and disability pay after you transition, and understanding the Survivor Benefit Plan are key steps in guaranteeing a happy retirement for yourself and a stable future for your family.

Thrift Savings Plan

As an active-duty service member or an employee of the federal government, you are eligible to participate in the Thrift Savings Plan (TSP). TSP is the government's version of a 401(k)-retirement plan. Your contributions – up to a maximum of $19,500 annually – are taken out of your monthly pay and deposited into a Roth or traditional TSP account, depending on your elections. Up to 4% of your contributions may also be matched by the federal government if you are enrolled in the Blended Retirement System (BRS).

> Note: Your retirement plan depends on when you joined the military. If you joined before January 1, 2006, you were enrolled in the legacy High-3 system. If you joined after January 1, 2018, you were enrolled in the Blended Retirement System. If you joined the military between January 1, 2006, and December 31, 2017, you were given the option to choose between the two retirement plans – enrollment decisions had to be made by December 31, 2018.

Under the legacy High-3 system, there are no matching contributions for your TSP account. If you are enrolled in BRS, it's important that you contribute at least as much is required to earn the matching funds or you are missing out on an additional 1–4% of your paycheck that is funded by the federal government – essentially free money. With compound interest and time, even a 1% match can grow into a significant nest egg for your retirement.

If you are approaching your military retirement and have not started contributing to a TSP account, you still have time. You can open a TSP account when you have at least two months left on active duty and it will stay open even after you retire provided there is a balance of at least $200. While you cannot contribute your monthly pay to your TSP account after retirement (unless you work for the federal government), you can still actively manage the fund allocations within the account through **TSP.gov** and you can contribute to the account in other ways. To fund your TSP post-military service, you can roll over future 401(k) accounts (both Roth and traditional) or traditional IRAs into the TSP to take advantage of low fees.

When you reach 59 ½ years old, you can start withdrawing funds from your TSP account without penalty to fund your retirement goals:

- Age-based in-service withdrawals: You may make a lump-sum withdrawal of at least $1,000 **while still in the service if you are at least 59 ½ years old**. You will be required to pay 20% federal income tax on the taxable portion of your age-based withdrawal unless you are rolling the funds over into a different retirement account.
- Lump-sum, installment, and annuity withdrawals: Withdrawals from your TSP account that must occur **after separation from the military**. These are not penalized, but you may be required to pay taxes.

When you reach age 72, the IRS requires you to withdraw a specific amount of money from tax-deferred retirement accounts each year. Traditional TSP withdrawals will act as your required minimum distribution (RMD) – provided you receive a withdrawal in at least the amount required by law. If you withdraw less than your RMD amount, TSP will mail you an additional sum of money (a supplementary payment) to make up for the difference. You will not have to pay taxes on earnings withdrawn from Roth TSP accounts, but you will pay taxes on earnings withdrawn from traditional accounts, so allocate your funds accordingly when you can still contribute to TSP.

Note: If you close your TSP account, you will not be allowed to reopen it unless you rejoin the military or get another position with the federal government. TSP has low fees compared to other retirement accounts; keeping yours open after you leave the service will allow your money to continue to grow without being encumbered by the higher fees you might find if you roll your funds over to a new 401(k) or IRA.

If you have questions about your TSP account, you can **learn more here**.

Military Retirement Pay

Your retirement pension depends on when you joined the military. If you joined before January 1, 2006, you were enrolled in the legacy High-3 system. If you joined after January 1, 2018, you were enrolled in the Blended Retirement System. If you joined the military between January 1, 2006, and December 31, 2017, you were given the option to choose between the two retirement plans – enrollment decisions had to be made by December 31, 2018.

- **Legacy High-3**: If you serve for at least 20 years, you qualify for a lifetime monthly annuity payment that is calculated at 2.5% times the number of years of service times the average of your highest 36 months of basic pay. TSP contributions *are not* matched by the government under this system.
- **Blended Retirement System**: If you serve for at least 20 years, you qualify for a lifetime monthly annuity payment that is calculated at 2% times the number of years of service times the average of your highest 36 months of basic pay. TSP contributions *are* matched by the government.

When considering your long-term retirement needs, your military pension is a significant portion of the income you will use to fund your goals. While most civilians will need to fund their retirement expenses with only Social Security income and the investments they have made within a 401(k) or IRA, military retirees are able to factor in their monthly pension for life, and can significantly reduce the amount of savings required to self-fund their retirement needs.

Disability Compensation

If you have a service-connected illness or injury, you may be eligible for disability compensation from the Department of Veterans Affairs. To get a disability rating – which then determines your level of eligibility – you must first file a **disability claim**. You will need to submit your DD 214, evidence of your illness or injury (like test results, medical opinions, or X-rays), and service treatment records. Once you receive a disability rating, provided it is at least 10%, you will begin receiving monthly payments.

- If you have a 10–20% disability rating, your payment amount is based solely on your rating.
- If you have a 30–100% disability rating, your payment amount is based on your rating and number of dependents (parents, spouse, and children).
- Learn more about disability compensation rates here.

You may also be eligible for benefits at the state and federal level that come with having a disability rating (some even starting at a 0% rating) such as VA loan funding fee waivers, college tuition benefits, and property tax reductions. Benefits vary by state and are dependent on disability rating requirements.

As a Veterans Service Organization (VSO), Navy Mutual is authorized to represent and assist veterans and their beneficiaries in applying for and contesting benefit claims before the U.S. Department of Veteran Affairs (VA). We can help guide veterans of any branch of the U.S. uniformed services through the claims process and provide formal representation. **Contact our Veteran Services team** to learn more.

Read more: **Securing Income Through Retirement**

Survivor Benefit Plan and Life Insurance

The Survivor Benefit Plan (SBP) is a government-subsidized program in which a retiree pays a set percentage of their retired pay to the Survivor Benefit Plan to ensure that their loved one(s) (typically a spouse or child) continue to receive a portion of their military pension after their passing. A retiree can choose their level of coverage or decide not to participate in the program entirely, and this decision must be made prior to leaving active duty.

While the **Survivor Benefit Plan** is an important way of securing a portion of your retirement as a benefit for your family, permanent life insurance can help fill any gaps. For example, a retiree who designates their child as a beneficiary may outlive their child's eligibility (children can only receive SBP benefits until age 18, or 22 if they are enrolled full-time in school, unless the child has a disability that was diagnosed while they were still eligible). If a retiree wishes to provide a guaranteed death benefit to their child(ren) after their passing, they should consider purchasing a permanent life insurance policy.

Note: Keep in mind that the Servicemembers' Group Life Insurance (SGLI) provided to servicemembers for the duration of their military service ends 120 days after separation. When transitioning out of the military, veterans have one year and 120 days to convert their SGLI to Veterans' Group Life Insurance (VGLI). In order to be eligible for guaranteed coverage without a medical exam through VGLI, a veteran must apply within 240 days of separation. VGLI premiums increase every five years, so while it may be affordable at young ages, a fixed-premium commercial policy may be less expensive over time if purchased while you are young and healthy.

Permanent life insurance policies also have riders that allow early access to the death benefit if the insured develops a chronic or terminal illness and needs funding to help pay for long-term care or other costs associated with their disease. This is an important consideration when it comes to retirement planning, as a majority of the population will need some level of long-term care at some point in their lives – and long-term care is expensive. Having access to a life insurance policy that can help alleviate the cost can secure your retirement and your family's financial future.

Read more: **New Advantages to Long Term Care Planning**

Retirement Planning

Military retirement pay and disability compensation payments are paid monthly through the end of your life and should be factored into your income in retirement. **Annuities** too, could provide another source of income that would be paid out monthly for the remainder of your life. You may also be eligible to receive Social Security benefits and, eventually, will be required to take distributions from your TSP and any other retirement accounts that you have. Rounding out your retirement planning with Survivor Benefit Plan participation and a permanent life insurance policy to cover any long-term care costs during retirement will help secure the savings you built up during your working years. To see how much you need to save for retirement, try using our **Retirement Planning Calculator**.

Planning for what comes next is easy with Navy Mutual. Our VSO representatives are here to help guide you through any VA claims questions our expert life insurance advice ensures you never have to make decisions in the dark. **Schedule a consultation**, **request a quote**, or call us at **800-628-6011** to start planning your future today.