



CHAIRMAN

OFFICE OF THE SECRETARY OF DEFENSE
RESERVE FORCES POLICY BOARD

5113 Leesburg Pike, Suite 601
FALLS CHURCH, VA 22041

INFO MEMO

JUN 28 2017

FOR: SECRETARY OF DEFENSE

DepSec Action _____

FROM: MajGen Arnold L. Punaro, USMCR (Ret), Chairman, Reserve Forces Policy Board

SUBJECT: Report of the Reserve Forces Policy Board on Support for H.R. 1317 and S. 492 - Servicemember Retirement Improvement Act

The Reserve Forces Policy Board (RFPB) is a federal advisory committee established in law to provide you with independent advice and recommendations on strategies, policies and practices designed to improve and enhance the capabilities, efficiency, and effectiveness of the Reserve Components.

The RFPB met on 7 June 2017 and discussed changes in pending legislation to the U.S. Tax Code of 1986 affecting reserve personnel members as specified in H.R. 1317 and S. 492. This legislation allows those members who fully maximize individual contributions in their civilian retirement accounts to contribute an equal amount to their military retirement (\$18K per year). After careful review and analysis, the RFPB recommends the Department of Defense fully support these bills. TAB A provides the background.

Recommendation: The Department support H.R. 1317 and S.492., which propose changes in tax law to amend *"the Internal Revenue Code to allow members of the Ready Reserve of a reserve component of the Armed Forces to make the maximum allowable contribution (\$18,000 in 2017) to their Thrift Savings Plans (TSPs) without limiting the amount such members may contribute to a retirement plan based upon other employment. The bill also doubles the maximum allowable contribution amount to the TSPs of federal employees in the Ready Reserve who are not eligible to make contributions to any plan other than the TSP."* [TAB C]

As required by the Federal Advisory Committee Act, the recommendations were deliberated and approved in an open, public session. Background and Discussion of this this recommendation is at TAB A. The briefing presented to and approved by the Board is at TAB B. House Resolution 1317 and Senate Bill 492 are identical and are at TAB C. Background information about the RFPB is at TAB D.

COORDINATION: NONE

Attachment(s):

As stated

Prepared by: COL Eric Folkestad, 703-681-1188

TAB

A

BACKGROUND and DISCUSSION

The Blended Retirement System (BRS) relies on member contributions and government matching funds invested in the Thrift Savings Program (TSP) to fully maximize retirement benefits. Military member contributions are capped at \$18,000 annually by law as are civilian retirement plans. Reserve Component members frequently participate in civilian retirement programs with employee contributions and matching funds. The current law prevents those members from contributing to the BRS if they have contributed the full amount to their civilian retirement accounts (401K and 403b plans). If they have not fully contributed the maximum amount allowed by law, they may contribute the difference to the military BRS plan. In either case, reserve component members with civilian plans are dis-incentivized in participating in the BRS, impacting their retirement. This will become a recruiting and retention issue in the long run.

H.R.1317 and S.492, introduced in the 115th Congress (2017-2018), share identical language [TAB C]. The bill “amends the Internal Revenue Code to allow members of the Ready Reserve of a reserve component of the Armed Forces to make the maximum allowable contribution (\$18,000 in 2017) to their Thrift Savings Plans (TSPs) without limiting the amount such members may contribute to a retirement plan based upon other employment. The bill also doubles the maximum allowable contribution amount to the TSPs of federal employees in the Ready Reserve who are not eligible to make contributions to any plan other than the TSP.”¹

¹ <https://www.congress.gov/bills/115/congress/house-bills/1317?q=%7B%22search%22%3A%5B%22H.R.+1317%22%5D%7D&r=1>

TAB

B



Subcommittee on Supporting and Sustaining Reserve Component Personnel

As briefed on 8 March 2017 and voted on 7 June 2017 by RFPB

Lieutenant General Stenner, USAFR (Ret)
Subcommittee Chair



Blended Retirement System (BRS) Thrift Savings Plan (TSP) Contribution Limits

Briefed on 8 March 2017

Brig Gen Jeff Cashman
Air National Guard
Director of Personnel
March, 2017



BRS Problem Statement



- Current tax law limits the incentive of the new Blended Retirement System (BRS) for Reserve Component service in some critical military career fields
- BRS reduces the defined benefit multiplier from 2.5% to 2% per year of service
- BRS adds the option of Government contributions to a thrift savings plan (TSP)
 - 1% for all; up to +4% more to match own deposits



BRS Problem Statement



- 80% of all civilian companies offer a TSP
- Current tax law caps TSP/401k deposits to \$18 k /yr
- 12% of all 401k accounts are funded to max
- Many traditional reservists will be unable to benefit from the TSP portion of the BRS package



Implications



- Affected population: Highest compensated civilian professionals who are also...
- Critical military career fields: Pilots, doctors, cyber professionals, attorneys, engineers, air traffic controllers, etc...
- Where we currently face significant recruiting and retention challenges



Solution



- Exceptions to the \$18 K / year contribution limit currently exist in federal tax law for State employees (nurses, firefighters, crop dusters) who also serve as traditional reservists.
- HR 1317 and S.492 expand this exception to include traditional reservists.



Recommendation



- SECDEF endorse HR 1317 and S.492
 - Introduced 2 March, 2017
 - Supported by Veteran's service organizations
 - Has 12 House co-sponsors and 2 Senate cosponsors so far



Dissenting views



- “Tax law is not a defense matter”
- “This impacts so few people”
- “Traditional Reservists would have negligible TSP contributions anyway”
- “Traditional reservists could contribute less to their civilian TSP (and perhaps forfeit employer match?) to make room for military TSP under the annual cap.”



Personnel SC Recommendation



The Personnel SC will continue to monitor H.R. 1317 and S.492. Consider recommending that OSD support the new bills, proposing changes in tax law which state:

- Selected Reserve Component personnel may apply the limit for retirement contributions separately to civilian and military accounts
 - H.R. 1317 was submitted in the 115th Congress
 - S.492 introduced March 3rd by Senator Cornyn (Texas) and Senator Casey (Pennsylvania)



Questions or Comments?



Blended Retirement System Thrift Savings Plan Contributions

Briefed and voted on 7 June 2017



BRS RC Issues



- **Issue: Current tax law prevents BRS participation for RC service members with fully maximized 401K plans – unable to participate in DoD matching funds**
 - BRS also reduces the defined benefit multiplier from 2.5% to 2% per year of service
 - BRS adds the option of Government contributions to a thrift savings plan (TSP)
 - 1% for all; up to +4% more to match own deposits
- **Briefed/discussed during 8 March Board Meeting.**

Legislation has been introduced to address this problem.

 - H.R. 1317 – Introduced by Rep. Sam Johnson with 20 current cosponsors
 - S. 492 – Introduced by Sen. John Cornyn with 1 cosponsor



Personnel SC Recommendation

- The Personnel Subcommittee proposes the Board vote on the following recommendation:
 - The Department support H.R. 1317 and S.492. which propose changes in tax law to amend “the Internal Revenue Code to allow members of the Ready Reserve of a reserve component of the Armed Forces to make the maximum allowable contribution (\$18,000 in 2017) to their Thrift Savings Plans (TSPs) without limiting the amount such members may contribute to a retirement plan based upon other employment. The bill also doubles the maximum allowable contribution amount to the TSPs of federal employees in the Ready Reserve who are not eligible to make contributions to any plan other than the TSP.”

Voted on and unanimously approved by RFPB

TAB
C

S. 492 & HR 1317²

To amend the Internal Revenue Code of 1986 to allow members of the Ready Reserve of a reserve component of the Armed Forces to make elective deferrals on the basis of their service to the Ready Reserve and on the basis of their other employment.

IN THE SENATE OF THE UNITED STATES

MARCH 2, 2017

Mr. CORNYN (for himself and Mr. CASEY) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to allow members of the Ready Reserve of a reserve component of the Armed Forces to make elective deferrals on the basis of their service to the Ready Reserve and on the basis of their other employment.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Servicemember Retirement Improvement Act”.

SEC. 2. ELECTIVE DEFERRALS BY MEMBERS OF THE READY RESERVE OF A RESERVE COMPONENT OF THE ARMED FORCES.

(a) IN GENERAL.—[Section 402\(g\)](#) of the Internal Revenue Code of 1986 is amended by adding at the end the following new paragraph:

² <https://www.congress.gov/bill/115th-congress/house-bill/1317?q=%7B%22search%22%3A%5B%22H.R.+1317%22%5D%7D&r=1>

“(9) ELECTIVE DEFERRALS BY MEMBERS OF READY RESERVE.—

“(A) IN GENERAL.—In the case of a qualified ready reservist (other than a specified Federal employee ready reservist) for any taxable year, the limitations of subparagraphs (A) and (C) of paragraph (1) shall be applied separately with respect to—

“(i) elective deferrals of such qualified ready reservist with respect to the Thrift Savings Fund (as defined in section 7701(j)), and

“(ii) any other elective deferrals of such qualified ready reservist.

“(B) SPECIAL RULE FOR FEDERAL EMPLOYEES IN THE READY RESERVE NOT ELIGIBLE TO MAKE ELECTIVE DEFERRALS TO A PLAN OTHER THAN THE THRIFT SAVINGS PLAN.—In the case of a specified Federal employee ready reservist for any taxable year—

“(i) the applicable dollar amount in effect under paragraph (1)(B) for such taxable year shall be twice such amount (as determined without regard to this subclause), and

“(ii) for purposes of paragraph (1)(C), the applicable dollar amount under section 414(v)(2)(B)(i) (as otherwise determined for purposes of paragraph (1)(C)) shall be twice such amount (as determined without regard to this subclause).

“(C) DEFINITIONS.—For purposes of this paragraph—

“(i) QUALIFIED READY RESERVIST.—The term ‘qualified ready reservist’ means any individual for any taxable year if such individual received compensation for service as a member of the Ready Reserve of a reserve component (as defined in section 101 of title 37, United States Code) during such taxable year.

“(ii) SPECIFIED FEDERAL EMPLOYEE READY RESERVIST.—The term ‘specified Federal employee ready reservist’ means any individual for any taxable year if such individual—

“(I) is a qualified ready reservist for such taxable year,

“(II) would be eligible to make elective deferrals with respect to the Thrift Savings Fund (as defined in section 7701(j)) during such taxable year determined without regard to the service of such individual described in clause (i), and

“(III) is not eligible to make elective deferrals with respect to any plan other than such Thrift Savings Fund during such taxable year.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

TAB
D

The Reserve Forces Policy Board – Basic Overview

The Reserve Forces Policy Board (RFPB) is a federal advisory committee mandated by law in the Office of the Secretary of Defense to "serve as an independent adviser to the Secretary of Defense to provide advice and recommendations to the Secretary on strategies, policies, and practices designed to improve and enhance the capabilities, efficiency, and effectiveness of the reserve components." As required by statute, the board also produces an annual report which the Secretary of Defense transmits to the President and Congress on reserve component matters the board considers appropriate to include in the report.

The board consists of 20 members; a civilian chairman, a general/flag officer from each of the seven reserve components, a two-star military executive, a senior enlisted advisor, plus ten other U.S. citizens, who may or may not be government employees, with significant knowledge of and experience in policy matters relevant to national security and reserve component matters.

The board is supported by a staff consisting of a Colonel or Navy Captain from each of the six DoD reserve components. There is also a Coast Guard staff officer. These officers also serve as liaisons between their respective components and the board. The law requires them "to perform their staff and liaison duties under the supervision of the military executive officer of the board in an independent manner reflecting the independent nature of the board."

Established in 1951, the board is one of the oldest advisory committees in the Department of Defense.

In the National Defense Authorization Act of 2011, Congress significantly revised the operating framework and membership of the RFPB. Previously, other than the chairman, the board included only DoD officials and made recommendations through the Assistant Secretary of Defense for Reserve Affairs. In 2008, the Commission on the National Guard and Reserves recommended that the RFPB's governing statute (10 USC 10301) be amended because the board was not structured to obtain and provide directly to the Secretary of Defense a wide range of independent advice on National Guard and Reserve matters due to the nature of its membership and its subordination to other offices within DoD. The revised law was effective 1 July 2011.

On 12 September 2011, retired Marine Corps Major General Arnold Punaro was sworn in as the first chairman of the board under the revised structure. Other new members were sworn in at an organizational meeting on 13 October.

The board is organized into three subcommittees: Ensuring a Ready, Capable, Available and Sustainable Operational Reserve; Enhancing DoD's Role in the Homeland; and Supporting and Sustaining Reserve Component Personnel. Subcommittees meet as required. The full board meets quarterly. The RFPB website is at <http://rfpb.defense.gov/>.