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## THE EFFECTS OF MILITARY THRIFT SAVINGS PLAN POLICY CHANGES ON MILITARY PARTICIPATION RATES, CONTRIBUTION RATES, AND CONTRIBUTION ALLOCATIONS

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December 2020

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ON MILITARY PARTICIPATION RATES, CONTRIBUTION RATES, AND  
CONTRIBUTION ALLOCATIONS**

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## **ABSTRACT**

The purpose of this research is to analyze the effects of the Department of Defense's policy changes to the Thrift Savings Plan (TSP), its defined contribution plan, enacted on 1 January 2018. A voluntary and anonymous survey was administered online to approximately 2,000 active-duty Navy personnel at Destroyer Squadron 31 to determine how the new TSP default options affected their TSP utilization and if their actions align with previous studies in behavioral economics. From the 87 survey responses received, 91 percent confirmed participation in the TSP, demonstrating the potential significance of TSP-related policy changes on military members. We found the new default contribution rate had less of an impact than the new default contribution allocation, which shifted from the Government Securities Investment Fund (G Fund) to the Life cycle Fund (L Fund) aligned to when the service member would reach retirement age. The G Fund has a historic rate of return of 2 percent over the past ten years, whereas the 2050 L Fund has produced a rate of return of 10 percent. We also discovered the majority of individuals who joined under the new system (53 percent) do not know in which funds their retirement TSP savings are invested. Our study demonstrates the substantial impact that current and future policy changes can have on the financial retirement health of service members and provides senior military leaders valuable data to develop training and policies appropriately.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

BRS	Blended Retirement System
C Fund	Common Stock Index Investment Fund
CFS	Command Financial Specialist
DESRON	Destroyer Squadron
DOD	Department of Defense
DON	Department of the Navy
G Fund	Government Securities Investment Fund
I Fund	International Stock Index Investment Fund
L Fund	Life cycle Fund
NDAA	National Defense Authorization Act
NPS	Naval Postgraduate School
S Fund	Small Cap Stock Index Investment Fund
TSP	Thrift Savings Plan

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# I. INTRODUCTION

## A. RESEARCH PURPOSE

Robert Wilkie, the former Under Secretary of Defense for Personnel and Readiness, stated the following regarding military compensation:

Military compensation ... must be an integral part of the overall system by which military manpower is managed. Compensation, by the very nature of its basic purpose, must support defense manpower policies that, in turn, support the military, strategic, and operational plans of this nation. If they do not, then manpower imbalances, deteriorating unit cohesion and integrity, poor morale, and a general degradation of discipline and motivation are likely to ensue. This in turn can frustrate the successful accomplishment of strategic and operational plans in the field, and thus negate our foreign-policy objectives. (Under Secretary of Defense for Personnel and Readiness, 2018, Chapter I, p. 2)

In this MBA report, we investigate whether changes in the default settings in the Department of Defense (DOD) defined-contribution retirement plan affect service member retirement savings behavior. Specifically, we examine active duty members' participation rates, contribution rates, and contribution allocations within the Thrift Savings Plan (TSP), the DOD equivalent of a 401(k). Research in behavioral economics strongly suggests that humans follow default settings when making complex decisions with uncertain future benefits (e.g., Thaler and Sunstein, 2008). Despite the DOD's stated focus on compensation as a tool to enhance mission-readiness, prior research generally ignores the role of choice architecture in shaping employees' retirement savings behavior. This report partially fills that gap.

On 1 January 2018, DOD changed its previous defined-benefit retirement plan to a combination defined-benefit and contribution plan known as the Blended Retirement System (BRS). Under the new structure, service members are automatically enrolled in the TSP (the defined contribution arm of BRS) at a rate of 3 percent of base pay. Additionally, these service members receive matching contributions.<sup>1</sup> The TSP default allocation also

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<sup>1</sup> We further discuss the default TSP settings after 1 January 2018 in Chapter II.

changed, from the Government Securities Investment Fund (G Fund) to the Life cycle Fund (L Fund) aligned to when the service member would reach retirement age. Former Defense Secretary Ash Carter highlighted the importance of these rule changes to DOD's future when he stated that the new system "is a key step in modernizing the department's ability to recruit, retain and maintain the talent [the nation requires] of our future force" (Parish, 2016).

When used appropriately, the TSP assists service members to plan for a financially secure retirement. Widescale shifts from defined benefit to defined contribution retirement savings plan place the responsibility for retirement financial planning on employees. As the uniformed services have followed this trend, the importance of members appropriately managing their TSP savings has increased. With over 2.8 million personnel (including civilian personnel, active duty service members, the National Guard, and Reserve service members), the DOD is the largest employer in the U.S. (General Service Administration & the Office of Management and Budget, 2020). Understanding retirement savings behavior within the DOD helps illuminate broader savings trends and speaks to the fiscal health of a sizeable proportion of the U.S. population. As the largest employer in the country, the DOD plays a crucial role in the fiscal health of both its employees and the broader aggregate macroeconomy.

## **B. IMPORTANCE OF RESEARCH**

We contribute to a substantial body of extant research around behavioral economics and decision-making under conditions of uncertainty. Prior research finds that humans rely on sometimes misleading heuristics (or rules of thumb) when faced with complex decisions whose ultimate payoffs are highly variable. For example, research on prospect theory has shown that people seek out losses and are gain-averse when uncertainty is high; when uncertainty is low the opposite is true (Tversky & Kahneman, 1992). We also build on behavioral economics research showing that inertia is a powerful latent motivator of human decision-making. As demonstrated in the research of McKenzie et al. (2006), Johnson and Goldstein (2003), Madrian and Shea (2002), Choi et al. (2002), Choi et al. (2001), Beshears et al. (2005), Johnson et al. (1993), and Johnson et al. (2002), individuals tend to follow

default options in a variety of settings including organ donation, retirement savings, auto insurance premiums, and website privacy policies.<sup>2</sup> We contribute to literature of behavioral economics and decision-making by providing survey evidence on the extent to which members of the DOD follow default retirement savings options. Our findings will be of interest to policymakers involved in designing choices to encourage optimal behavior as well as leaders of the DOD, U.S. Department of the Navy (DON) and Human Resources personnel interested in the impact of the recent changes in TSP default settings on service members' retirement savings behavior.

### **C. ORGANIZATION OF REPORT**

The remainder of this report proceeds as follows: in Chapter II, we provide a background of the TSP and retirement savings plans within the DOD and DON. Chapter III summarizes relevant literature and contains our hypotheses. Chapter IV describes our research methodology in detail. In Chapter V, we discuss our results, and we conclude in Chapter VI.

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<sup>2</sup> We provide a more detailed review of prior research in Chapter III.

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## **II. BACKGROUND**

### **A. BACKGROUND**

The United States DOD is a unique employer in today's economy that still offers a defined benefits-based retirement to its military service members. Service members who reach 20 or more years of service receive a pension based on their highest 36 months of pay during their tenure (Department of Defense [DOD], n.d.). There are currently two types of retirement systems for active duty service members: the High-36 and the BRS. The High-36 system provides retiring members a defined benefit annuity equal to the member's base pay averaged over their highest paid 36-month period multiplied by 2.5 percent for every year of active duty served. Originally the maximum pension was designed to be a maximum of 75 percent, but Congress removed the cap in 2007 to retain more seasoned flag officers in support of the ongoing conflicts in Iraq (in 2015 a new cap was established as a maximum dollar amount at the basic pay schedule of executive level II, currently \$197,300) (National Defense Authorization Act [NDAA], 2006; Kamarck, 2019; NDAA, 2014). It is an all-or-nothing retirement plan in which a member must reach 20 years of active duty service to qualify for the defined benefits.

On 1 January 2018, the DOD established the current BRS and allowed service members who were already on active duty with less than 12 years of service (i.e., those who began service on or after 1 January 2006) to opt in. The BRS is a combination of a defined benefit plan equal to the member's base pay averaged over their highest paid 36-month period multiplied by 2 percent for every year of active duty served (up to a maximum of 60 percent) as well as contribution into a retirement savings and investment plan known as the TSP, matching up to 5 percent of the member's base pay contributions (NDAA, 2015; Navy Personnel Command [NPC], 2020b). The defined benefit portion of the BRS requires a minimum of 20 years of service which is in line with its High-36 predecessor. The defined contribution portion does not have this requirement; TSP contributions and earnings are retained by the member. Service contributions, which are comprised of Service Automatic Contributions of 1 percent and Service Matching Contributions of up to 4 percent, may also be retained by the member. Service members are instantly vested in

the Service Matching Contributions portion and are vested in the Service Automatic Contributions portion once they reach two years of service (Thrift Savings Plan [TSP], n.d.).

The Federal Employees' Retirement System Act of 1986 implemented the TSP as a defined contribution plan. This act provided federal employees and military service members (both active and reserve) tax advantages when saving for retirement comparable to those seen in 401(k) retirement accounts. The TSP is monitored and controlled by a government agency called the Federal Retirement Thrift Investment Board. This board has the fiduciary responsibility to ensure they are making the best decisions possible for their investors. This project focuses only on the active duty military members in the United States Navy to better understand how the recent policy changes affected service members' behavior in retirement and investment saving via the TSP.

Prior to policy changes adopted on 1 January 2018, members were required to opt into contributing to their TSP. The default allocation for members who chose to opt in was the G Fund, which historically bears the lowest risk and the lowest returns (2.23 percent over the last 10 years) relative to a historical average of between 6 and 10 percent on L Funds (depending on the portfolio risk). Members would have had to log in to initiate and change their contribution amounts and allocations to further tailor their TSP savings. Additionally, these members do not receive matching service contributions.

With the policy changes enacted, new members are automatically enrolled into the TSP system once they have served for 60 days and have a default contribution of 3 percent. (BRS members who do not wish to participate in the TSP must opt out.<sup>3</sup>) The allocation of these contributions is now defaulted into a diversified Life Cycle Fund (L Fund) that is managed to align with the date the member would expect to reach retirement age (62). The L Fund was established on 1 August 2005 and is designed to transition from a high-risk, high-reward investment to a more conservative investment as the member nears retirement.

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<sup>3</sup> Members who were initially under the HI-3 system who elected to switch to BRS still had to opt in to enroll into the TSP system and had a default contribution of zero percent; their previously-set TSP contributions and allocations remained the same after they switched to BRS.

The L Fund has seen return rates between 6.70 percent for L2020 and 9.41 or 9.51 percent for L2040 and L2050, respectively (more aggressive portfolios) over the last 10 years.<sup>4</sup>

## **B. PURPOSE**

On 1 January 2018, the DOD changed the previous High-36 plan to a combination of a defined benefit and defined contribution plan known as the BRS. Policy changes incorporated into the revised system included automatic TSP enrollment for new service members at a rate of 3 percent of their base pay. This rate is scheduled to increase to 5 percent for members who join the Armed Services on or after 1 October 2020.

This study aims to determine if there have been statistically significant changes in participation rates, contribution rates, and contribution allocations with the new BRS default option of automatic TSP enrollment versus the previous opt-in method under the High-36 plan.

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<sup>4</sup> L2050 data encompasses performance since its inception on 31 January 2011.

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### III. LITERATURE REVIEW AND HYPOTHESIS

Default options can have a profound impact on people's behavior. In general, people usually do not change from the default option (McKenzie et al., 2006). This is known as the "default effect" (McKenzie et al., 2006; Kahneman et al., 1991). For instance, more people are likely to be organ donors when it is the default option (McKenzie et al., 2006; Johnson & Goldstein, 2003). Likewise, it has been found that people tend to not switch from their retirement savings plan defaults (Madrian & Shea, 2001; Choi et al., 2002; Choi et al., 2001; Beshears et al., 2005). An analysis by Choi et al. (2002) found that if a company has automatic retirement savings account enrollment, "employees overwhelmingly accept the automatic enrollment defaults, including default savings rates and default funds" (p. 103). Additionally, default effects have been demonstrated in decisions regarding insurance rates as well as privacy policies for internet services (Johnson et al., 1993, 2002).

Johnson and Goldstein (2003) offered three possible reasons why default effects occur. One possible explanation is that defaults may be perceived as policy-maker recommendations. Decision-makers may perceive these "recommendations" as advice as to which option should be selected. Another way that a default may influence one's choice is the level of effort involved in accepting versus changing from the default. In other words, keeping the default may be effortless and therefore easier than making a different decision. Lastly, the default usually represents the "status quo," or the current baseline. People have a status quo bias when they prefer the existing state. Making changes often include trade-offs. It has been found that one's losses are perceived as and weighed heavier than gains that are actually equivalent. Studies estimate that the utility a person feels from a loss is two times greater than that from a gain, making people more risk averse (Kahneman et al., 1990; Kahneman et al. 1991). This type of reasoning is known as loss aversion.

An explanation for why service members may delay saving for retirement can be explained by behavioral economist George Loewenstein's "hot-cold empathy gap" (1996). This theory rationalizes how an individual's decision making is affected based on their current state (i.e., hot or cold). A hot state is in the moment and deals with self-gratification

now at the expense of a better course of action (as determined by the one making the decision) that they would normally make without the direct impact of these influences. The idea of using the money earned today for instant indulgence versus saving money for future benefit is perfectly in line with this concept (Thaler & Sunstein, 2008).

Economists have recommended changes in default settings to encourage optimal long-term behaviors. Richard Thaler wrote extensively on how behavior can be affected through small changes called “nudges.” A nudge is “any aspect of the choice architecture that alters people’s behavior in a predictable way without forbidding any options or significantly changing their economic incentives.” Simplified, it means that small ways of how programs are set up can have huge impacts on their utilization. This can be from how information is presented to the individual or what the default options are for the program (Thaler & Sunstein, 2008).

Based on previous research, we expect to see a statistically significant increase in the percentage of USN servicemembers enrolled in the TSP after the change in default options in 2018, compared to those who enrolled under the “opt-in” model before these changes. Additionally, we expect to find a significant number of participants who enrolled in the TSP on/after 1 January 2018 to be contributing 3 percent (the current default) of their base pay. We also anticipate that most servicemembers will have default contribution allocations in place, whether they enrolled before, on, or after 1 January 2018 (i.e., those who enrolled before this date will more likely have their contribution allocated solely into the G Fund and those who enrolled on or after this date will more likely have their contribution allocated into the age-appropriate L Fund).

While a significant amount of research has been committed to the economic behavior of humans and applied to retirement behavior, more in-depth research on the current TSP retirement policy could be useful. Military service members may react to these default options differently due to a variety of factors (from pay being organized into categories to pensions being available) and this study would provide a better understanding to government officials to institute policy changes to better facilitate military retirement savings.

## IV. METHODOLOGY

We collected survey responses using the Naval Postgraduate School (NPS) LimeSurvey software. The NPS Institutional Review Board approved the survey with exempt status.<sup>5</sup> The Navy Survey Office also provided approval to administer the survey within Destroyer Squadron (DESRON) 31. DESRON 31 was chosen as the participating command because of existing professional connections between DESRON 31 leadership and the research team, which allowed the research team relatively easy access to a large active duty population to survey.

The survey was made available to personnel under DESRON 31 and its seven subordinate ships, totaling approximately 2,000 active duty service members ranging in rank from E-1 (newly enlisted personnel) to O-6 (senior officers with 20+ years of experience). The survey script was sent to the Command Financial Specialist (CFS), who disseminated the information to the commands.<sup>5</sup> The survey was available for three weeks (21 July 2020 through 11 August 2020), was completely voluntary, and results were anonymized by the survey software. A total of 87 responses were received for analysis in Chapter V.

A blank copy of the survey instrument can be found in Appendix A.

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<sup>5</sup> The CFS position is held by an active-duty service member without any ties to rank, who does not have disciplinary authority over the potential survey respondents, and who has been trained to assist individuals in financial matters at each ship to forward via email to all service members within their command. The CFS sent a total of three emails, including two reminder emails.

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## V. RESULTS

We received 87 completed survey instruments. However, we removed one survey from analysis because the respondent selected “prefer not to respond” as the answer for every instrument except age. Six surveys contained contradictory responses. For example, the respondent indicated a service period of 20 years but selected 20 to 24 years as their age. We used these data points only in categories in which there would be no conflicts. To illustrate, the example above was excluded from analyses of age or service length, but we included this individual’s responses in our analyses of non-conflicting data such as TSP contributions and gender. Instances in which respondents with conflicting survey answers were removed are annotated with an “\*” throughout the remainder of this paper.

We compared the demographic characteristics of survey respondents to DOD information for 2018 to verify responses are representative of the broader servicemember community; results are consistent with this hypothesis (DOD, 2018). Survey participants are 72.1 percent male and 25.6 percent female compared to a USN distribution of 80.3 percent and 19.7 percent, respectively.<sup>6</sup> Regarding the highest level of education completed amongst the survey respondents, 30.2 percent have completed high school or equivalent, 26.7 percent have some college (relative to 56.9 percent with no college degree), and 20.9 percent have a bachelor’s degree. In the USN, 69.2 percent collectively have completed high school (or equivalent) or some college, and 11.0 percent have a bachelor’s degree.<sup>7</sup>

White participants make up 52.3 percent of responses while Black/African American participants represent 12.8 percent and Hispanic/Latino participants comprise 12.8 percent as well. The USN racial distribution is 62.0 percent White, 17.1 percent Black/African American, and 15.1 percent Hispanic/Latino. The rank of the respondents ranges from E-1 (entry-level enlisted member who is new to the military) to O-6 (senior officer and manager who generally possess a graduate degree and at least 20 years of military

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<sup>6</sup> Two survey participants selected "prefer not to respond" regarding their gender.

<sup>7</sup> Commissioned officers are generally required to have a four-year degree prior to commissioning (Navy Recruiting Command, n.d.). The Limited Duty Officer and Chief Warrant Officer programs are exceptions and do not require a college degree (NPC, 2020a).

leadership experience). The most represented group in terms of rank was E-4 to E-6 (mid-grade enlisted member who is an experienced associate to low-level supervisor) at 45.3 percent of responses, which closely resembles the overall USN level of 47.9 percent.

Appendix B contains survey results. We found that 90.7 percent of individuals use the TSP versus 7.0 percent who do not (2.3 percent were unsure if they participate). Of those who do not use TSP, 50 percent participate in another retirement plan and 83.3 percent have over 12 years of service and likely intend to retire with a pension. Due to the high TSP utilization rate, TSP-related retirement policies and training provided in the military are likely to impact the majority of service members. The majority of individuals who participate (57.7%) contribute between four and 10 percent of their basic pay. This is above both the current default of the new automatic-enrollment (auto-enroll) system of 3 percent (established on 1 January 2018) and the old opt-in system (which had a 0 percent default contribution). Table 1 shows the breakdown of contributions as a percentage of basic pay by service member among those who confirmed participation in the TSP.

Table 1. TSP Participants by Contribution – TSP participants’ contributions as a percentage of their basic pay. Most members contribute more than their default contribution rate.

Contribution Range	Number of TSP Participants	Percentage of TSP Participants
0-2%	9	11.5%
3%	8	10.3%
4-5%	19	24.4%
6-10%	26	33.3%
11-15%	6	7.7%
16-20%	4	5.1%
Greater than 20%	5	6.4%
Unsure	1	1.3%
Prefer not to respond	0	0.0%
<b>Total</b>	<b>78</b>	<b>100.0%</b>

Of the individuals who do not use the TSP, 83.3 percent are under the legacy opt-in system. Of the participants (21\*) who are under the new auto-enroll system, only 19.0

percent contribute the default amount of 3 percent. This is less than previous studies on default options have demonstrated and might suggest military personnel are now more actively involved in their retirement plans. The Navy implemented increased TSP training in July 2016, which could have impacted the level of active TSP participation (Chief of Naval Operations, 2016). Another 23.8 percent of participants under the new system contribute less than 3 percent, which totals 42.9 percent\* of people under the auto-enroll system who contribute less than 4 percent of their basic pay (compared to 22.0 percent\* of participants in the previous opt-in system). This indicates that individuals under the new system might be saving less for retirement. Additional considerations for these results are discussed at the end of this chapter.

The allocation of the member’s contribution among TSP funds is arguably at least as important as the amount because it determines the level of risk and potential return on investment. Table 2 shows the percentage of service members shows participate in the TSP in each fund. Note that a member can participate in multiple funds so the percentages can total over 100 percent.

Table 2. TSP Participants by Fund Type – Most TSP participants contribute to funds other than just their default fund.

Fund Type	Number of TSP Participants	Percentage of TSP Participants
G Fund	28	35.9%
C Fund	24	30.8%
S Fund	22	28.2%
I Fund	13	16.7%
L Fund	23	29.5%
Unsure	19	24.4%
Prefer not to respond	2	2.6%

An interesting note from the data above is that 11\* of the 19 individuals who are unsure where they allocate their TSP contributions are part of the new auto-enroll system. That means 11\* of 21\* survey participants under the new system (52.8 percent) do not know where their money is invested or how it is performing (compared to 13.0 percent of

TSP participants who joined under the opt-in system). Of the 75\* participants whose response data did not conflict, 18.7 percent (14 individuals) invest in only their default allocation, and of those (14 individuals), 92.9 percent (13 individuals) joined under the legacy system.

This portion of our results supports past research in behavioral economics and shows the importance of default options. Under the old system, service members who chose to opt in had their funds automatically allocated into the G Fund (which has a 2.23 percent rate of return over the last 10 years) (TSP, 2020a). Under the new system, the member's contributions are automatically allocated into the L Fund aligned to when they turn 62 (L2050 had a return rate of 9.51 percent over the last nine years) (TSP, 2020b). A large proportion of individuals who are unsure about the allocation of their contributions are likely invested in their default fund. Many members (24.1 percent\*) in the legacy system exclusively invest in their default TSP fund, but it is difficult to determine what percentage of these individuals understand the implications of their contribution allocation decision on their long-term retirement goals.

An interesting find in relation to our demographics data shows that the higher the level of formal education completed by an individual, the higher percentage of their basic pay they contribute to their TSP. This correlation could indicate that increased education has a positive effect on the amount one contributes to his or her retirement savings. Table 3 shows the median contribution range by the highest level of education completed.

Table 3. Survey Participants by Highest Education Level Completed – Those with more education tend to contribute higher percentages of their pay toward their TSP accounts.

Highest Education Level Completed	Number of Survey Participants	Median Contribution Range
High school or equivalent	25	4–5%
Some college	21	6–10%
Associate’s degree	12	6–10%
Bachelor’s degree	18	6–10%
Graduate degree	5	11–15%
Prefer not to respond	2	0–10%

Another item we analyzed is whether the number of dependents would have any effect on the contribution percentage. People with less financial commitments (in terms of dependents) may be able to invest more or people with dependents might invest more because of the responsibility they have to others. Our findings show that having a dependent did raise the median contribution of the service member, but the more dependents they have, the less they contribute. Table 4 summarizes the findings.

Table 4. Survey Participants by Number of Dependents – Those with dependents tend to contribute a higher percentage of their pay to their TSP accounts.

Number of Dependents	Number of Survey Participants	Median Contribution Range
0	49*	4–5%*
1	13	6–10%
2	11	6–10%
3	4	3–10%
4	2	0–3%
5+	3	0%
Prefer not to respond	1	3%

Table 5 compares the median TSP contribution range to the age of the individual. It is unexpected to see that younger demographics appear to be saving more via TSP than

their older counterparts. This could be due to various reasons. For example, younger members are likely to be more educated when compared to previous generations, which could lead to increased savings for retirement (Bialik & Fry, 2019). Another possible cause could be that older members are saving more in alternative savings plans. For example, all of the survey participants who are 40 years and older contribute to the TSP and/or a different retirement plan. Older individuals tend to have more time in service and be of a higher rank and therefore tend to have a higher income. These individuals may be more financially able to contribute for retirement. However, our results show that this group contributes less to the TSP. This study did not evaluate the quality nor quantity of the other savings plans.

Table 5. Survey Participants by Age – Younger participants tend to contribute more toward their TSP account than their older counterparts.

Age of Survey Participant	Number of Survey Participants	Median Contribution Range
17-19	3	3%
20-24	25*	6–10%*
25-29	15	6–10%
30-34	17	6–10%
35-39	15	4–5%
40+	7	3%

There are several considerations that must be acknowledged in the analysis of this data. The first is that since the survey was voluntary and revolved around the TSP, respondents may be generally more active in the TSP than the average service member. Additionally, the contributions for service members who actively manage their account may also be in flux due to the volatility of the market in 2020 due to the COVID-19 pandemic. It is also possible that people have adjusted their usual investment behavior to either be more conservative to safeguard themselves or to be riskier to capitalize on the market.

## VI. CONCLUSION

When the DOD changed its defined-benefit retirement plan to a combination defined-benefit and contribution plan on 1 January 2018, it also shifted the responsibility for retirement planning onto service members. It is now more important than ever for service members to appropriately manage their retirement savings. Although there are TSP defaults set in place to assist service members in planning for a financially secure retirement, as our research shows, such defaults do not meet the requirements of every individual member. For example, the TSP does not take into consideration other investments or retirement plans the member may have.

Due to its position as the largest employer in the U.S., the DOD is obligated to provide not only a retirement planning tool, but also the necessary education and training to help ensure the financial well-being of its members. This is crucial for the sake of the individuals themselves but also for the sake of the future of the country's overall financial health. Additionally, the perception of how well the DOD is able to better prepare its members for retirement can affect its ability to recruit and retain the best possible national defense personnel.

The purpose of our research is to determine the effects the TSP policy changes adopted on 1 January 2018 had on the retirement savings behavior of military members. Our survey results from the 86 participants show that over 90 percent of active duty service members participate in the TSP. We determined the default amount is less impactful than the default allocation, with only 19.0 percent of individuals who joined under the new default options contributing the default amount. The default allocation has a higher impact, with 52.8 percent of individuals under the new system unsure where their contributions are being allocated. Our findings also show that individuals who have more formal education tend to contribute more toward their retirement.

This study provides senior leadership information to help guide current and future retirement policies. It provides information of how service members use their TSP and comes from a sample that reasonably mirrors that of the actual DOD. Topics that would be

beneficial in the continuation of research in this area include whether the mandatory TSP training is effective and impactful on the high percentage of active duty service members participating in TSP, the impact the pandemic of coronavirus disease 2019 had on savings behavior due to either market volatility or reduction in family income, and whether a person's intent to retire from the military, and thus receive a pension, affects their retirement behavior.

## APPENDIX A. SURVEY QUESTIONS

### TSP/Retirement Plan Questions:

- 1. Do you currently participate in the military Thrift Savings Plan?**
  - Yes
  - No
  - Unsure
  - Prefer not to respond
  
- 2. What percentage of your base pay do you contribute to your Thrift Savings Plan?**
  - 0-2%
  - 3%
  - 4-5%
  - 6-10%
  - 11-15%
  - 15-20%
  - Greater than 20%
  - Unsure
  - Prefer not to respond
  
- 3. Which Thrift Savings Plan funds do you participate in? (Check all that apply)**
  - G Fund
  - C Fund
  - S Fund
  - I Fund
  - L Fund
  - Unsure
  - Prefer not to respond
  
- 4. Which military retirement plan are you currently participating in?**
  - Blended Retirement System
  - High-36 aka High-3
  - Unsure
  - Prefer not to respond

**5. Do you participate in any other retirement plans?**

- Yes
- No
- Unsure
- Prefer not to respond

**Demographic Questions:**

**6. What is your current age?**

- 17-19
- 20-24
- 25-29
- 30-34
- 35-39
- 40+
- Prefer not to respond

**7. What is your home of record?**

- Alabama
- Alaska
- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- Florida
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Maryland
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- Missouri

- Montana
- Nebraska
- Nevada
- New Hampshire
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- South Dakota
- Tennessee
- Texas
- Utah
- Vermont
- Virginia
- Washington
- West Virginia
- Wisconsin
- Wyoming
- District of Columbia
- Other
- Prefer not to respond

**8. What gender do you identify as?**

- Male
- Female
- Other
- Prefer not to respond

**9. What is your time in service (in years)?**

- 0-2
- 3-4
- 5-6
- 7-8
- 9-10
- 11-12
- 13-14
- 15-16
- 17-18
- 19-20
- 21+
- Prefer not to respond

**10. When was your active duty start date?**

- 31 Dec 2017 or before
- 1 Jan 2018 or later
- Prefer not to respond

**11. What is your current rank?**

- E1-E3
- E4-E6
- E7-E9
- W1-W5
- O1-O2
- O3-O4
- O5-O6
- Prefer not to respond

**12. What is your race/ethnicity?**

- Hispanic or Latino or Spanish Origin of any race
- American Indian or Alaskan Native
- Asian
- Native Hawaiian or Other Pacific Islander
- Black or African American
- White
- Other
- Two or more races
- Prefer not to respond

**13. What is your highest level of education completed?**

- High school or equivalent
- Some college
- Associate's degree
- Bachelor's degree
- Graduate degree
- Prefer not to respond

**14. What is your marital status?**

- Single
- Divorced
- Married
- Widowed
- Prefer not to respond

**15. How many legal dependents do you have?**

- 0
- 1
- 2
- 3
- 4
- 5+
- Prefer not to respond

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## APPENDIX B. SURVEY RESULTS

### TSP/Retirement Plan Questions:

<b>1. Do you currently participate in the military Thrift Savings Plan?</b>	<b>Count</b>	<b>Percentage</b>
Yes	78	90.70%
No	6	6.98%
Unsure	2	2.33%
Prefer not to respond	0	0.00%

<b>2. What percentage of your base pay do you contribute to your Thrift Savings Plan?</b>	<b>Count</b>	<b>Percentage</b>
0-2%	14	16.28%
3%	8	9.30%
4-5%	19	22.09%
6-10%	26	30.23%
11-15%	6	6.98%
16-20%	4	4.65%
Greater than 20%	5	5.81%
Unsure	2	2.33%
Prefer not to respond	2	2.33%

<b>3. Which Thrift Savings Plan funds do you participate in? (Check all that apply)</b>	<b>Count</b>	<b>Percentage</b>
G Fund	30	34.88%
C Fund	24	27.91%
S Fund	22	25.58%
I Fund	13	15.12%
L Fund	23	26.74%
Unsure	22	25.58%
Prefer not to respond	5	5.81%

<b>4. Which military retirement plan are you currently participating in?</b>	<b>Count</b>	<b>Percentage</b>
Blended Retirement System (BRS)	33	38.37%
High-3	39	45.35%
Unsure	11	12.79%
Prefer not to respond	3	3.49%

<b>5. Do you participate in any other retirement plans?</b>	<b>Count</b>	<b>Percentage</b>
Yes	25	29.07%
No	56	65.12%
Unsure	4	4.65%
Prefer not to respond	1	1.16%

**Demographic Questions:**

<b>6. What is your current age?</b>	<b>Count</b>	<b>Percentage</b>
17-19	3	3.49%
20-24	28	32.56%
25-29	15	17.44%
30-34	18	20.93%
35-39	15	17.44%
40+	7	8.14%

<b>7. What is your home of record?</b>	<b>Count</b>	<b>Percentage</b>
Alabama	1	1.16%
Alaska	0	0.00%
Arizona	0	0.00%
Arkansas	0	0.00%
California	14	16.28%
Colorado	1	1.16%
Connecticut	0	0.00%
Delaware	1	1.16%
Florida	7	8.14%
Georgia	5	5.81%
Hawaii	2	2.33%
Idaho	0	0.00%
Illinois	2	2.33%
Indiana	0	0.00%

Iowa	0	0.00%
Kansas	1	1.16%
Kentucky	0	0.00%
Louisiana	1	1.16%
Maine	0	0.00%
Maryland	2	2.33%
Massachusetts	0	0.00%
Michigan	0	0.00%
Minnesota	1	1.16%
Mississippi	2	2.33%
Missouri	0	0.00%
Montana	0	0.00%
Nebraska	0	0.00%
Nevada	2	2.33%
New Hampshire	0	0.00%
New Jersey	2	2.33%
New Mexico	2	2.33%
New York	1	1.16%
North Carolina	2	2.33%
North Dakota	0	0.00%
Ohio	5	5.81%
Oklahoma	2	2.33%
Oregon	1	1.16%
Pennsylvania	8	9.30%
Rhode Island	0	0.00%
South Carolina	0	0.00%
South Dakota	0	0.00%
Tennessee	1	1.16%
Texas	15	17.44%
Utah	1	1.16%
Vermont	0	0.00%
Virginia	2	2.33%
Washington	1	1.16%
West Virginia	0	0.00%
Wisconsin	0	0.00%
Wyoming	0	0.00%
District of Columbia	0	0.00%
Other	1	1.16%
Prefer not to respond	0	0.00%

<b>8. What gender do you identify as?</b>	<b>Count</b>	<b>Percentage</b>
Male	62	72.09%
Female	22	25.58%
Other	0	0.00%
Prefer not to respond	2	2.33%

<b>9. What is your time in service (in years)?</b>	<b>Count</b>	<b>Percentage</b>
0-2	23	26.74%
3-4	11	12.79%
5-6	8	9.30%
7-8	7	8.14%
9-10	11	12.79%
11-12	6	6.98%
13-14	5	5.81%
15-16	3	3.49%
17-18	6	6.98%
19-20	2	2.33%
21+	4	4.65%
Prefer not to respond	0	0.00%

<b>10. When was your active duty start date?</b>	<b>Count</b>	<b>Percentage</b>
31 Dec 2017 or before	58	67.44%
1 Jan 2018 or later	26	30.23%
Prefer not to respond	2	2.33%

<b>11. What is your current rank?</b>	<b>Count</b>	<b>Percentage</b>
E1-E3	16	18.60%
E4-E6	39	45.35%
E7-E9	15	17.44%
W1-W5	0	0.00%
O1-O2	6	6.98%
O3-O4	7	8.14%
O5-O6	2	2.33%
Prefer not to respond	1	1.16%

<b>12. What is your race/ethnicity?</b>	<b>Count</b>	<b>Percentage</b>
Hispanic or Latino or Spanish Origin of any race	11	12.79%
American Indian or Alaskan Native	0	0.00%
Asian	8	9.30%
Native Hawaiian or Other Pacific Islander	0	0.00%
Black or African American	11	12.79%
White	45	52.33%
Other	0	0.00%
Two or more races	6	6.98%
Prefer not to respond	5	5.81%

<b>13. What is your highest level of education completed?</b>	<b>Count</b>	<b>Percentage</b>
High school or equivalent	26	30.23%
Some college	23	26.74%
Associate's degree	12	13.95%
Bachelor's degree	18	20.93%
Graduate degree	5	5.81%
Prefer not to respond	2	2.33%

<b>14. What is your marital status?</b>	<b>Count</b>	<b>Percentage</b>
Single	45	52.33%
Divorced	5	5.81%
Married	34	39.53%
Widowed	0	0.00%
Prefer not to respond	2	2.33%

<b>15. How many legal dependents do you have?</b>	<b>Count</b>	<b>Percentage</b>
0	52	60.47%
1	13	15.12%
2	11	12.79%
3	4	4.65%
4	2	2.33%
5+	3	3.49%
Prefer not to respond	1	1.16%

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