

STATEMENT

of the

MILITARY OFFICERS ASSOCIATION OF AMERICA

on

THRIFT SAVINGS PLAN ENHANCEMENTS

before the

HOUSE OVERSIGHT AND GOVERNMENT REFORM
COMMITTEE

FEDERAL WORKFORCE, POSTAL SERVICE, AND THE
DISTRICT OF COLUMBIA SUBCOMMITTEE

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Presented by

Colonel Michael F. Hayden, USAF (Ret.)
Deputy Director, Government Relations

CHAIRMAN LYNCH, RANKING MEMBER CHAFFETZ, AND DISTINGUISHED MEMBERS OF THE SUBCOMMITTEE, on behalf of the 375,000 members of the Military Officers Association of America (MOAA), I am grateful for the opportunity to present testimony on MOAA's views of recent legislative changes to the Thrift Savings Plan and potential other enhancements that could benefit uniformed service members and their families.

MOAA does not receive any grants or contracts from the federal government.

The Thrift Savings Plan Enhancement Act of 2009, part of Public Law 111-31 signed into law in June of this year, included two noteworthy provisions for uniformed service members and their families – provisions that have MOAA's full support.

The first provision makes some modest future increases in payments to military survivors affected by the offset of DoD's Survivor Benefit Plan by VA's Dependency and Indemnity Compensation.

The second provision, which is the focus of our testimony today, authorizes currently serving uniformed service members and federal civilian employees a Roth savings option under the federal Thrift Savings Plan – a provision we have been advocating for since the advancement of Roth 401Ks in 2006 and one that the Federal Retirement Thrift Investment Board recommended to Congress earlier this year.

MOAA strongly supports a Roth TSP option, under which participants pre-pay taxes on their contributions but watch their Roth savings grow tax-free and enjoy tax-free withdrawals in retirement.

Providing a Roth option will be especially attractive for young service members in lower tax brackets as well as career military people, who receive part of their current pay as tax-free allowances, but can expect to have taxable retirement annuities.

MOAA believes providing a Roth TSP option for currently serving personnel is an equitable and enlightened action which will improve their long term financial security. The families of our service members most assuredly deserve this option in light of their contributions to our nation.

Since the passing of the Act, we are grateful that the Thrift Savings Plan website has taken a very proactive approach by posting two informative fact sheets; one outlining the legislative changes to the Thrift Savings Plan for federal employees and service members and another that provides frequently asked questions and answers.

The Q&A fact sheet makes the following key statements MOAA intends to follow closely during the upcoming implementation period:

- The first is that uniformed members and federal employees could see a Roth TSP implementation as early as January 2011.
- The second outlines there will be no income restrictions on Roth TSP contributions.

- Finally, the third outlines that the Thrift Savings Plan will develop a plan to educate eligible users on the relative advantages and disadvantages of the Roth vs. regular TSP.

We believe the third bullet is critical. Service members must be provided concise decision information in order to determine if a Roth TSP plan is right for them.

OTHER TSP RECOMMENDATIONS

TSP Conversion – As was the case in the late 90s when a Roth IRA was first introduced, we recommend that with the implementation of a Roth TSP, military and federal employees should be offered the option of converting some or all of their existing TSP accounts to Roth TSP accounts regardless of their modified adjusted gross income.

Providing a conversion option is a win-win for both the participant and the federal government, especially in the current national deficit environment. Participants win by having the option to convert, pay taxes now, and have their TSP earnings grow without tax liability upon withdrawal.

Additionally, the federal government wins by garnering more tax revenues now, upfront.

Fixed Dollar Amount Option – Additionally, MOAA supports a legislative change to Title 5, sec. 8432 that would allow uniformed service members to enjoy the same TSP contribution options that federal employees presently enjoy.

Currently, service members can only elect a whole percentage option for TSP contributions. Federal civilian employees have the option to contribute either a set dollar amount or a percentage of pay.

MOAA believes that all TSP members, both service members and federal civilians, should be permitted to contribute a set dollar amount. A set dollar amount will allow service members to calculate monthly withholdings in order to maximize their annual contributions.

Right now service members can only get “in the ball park” to maximize their annual contribution amount. They must calculate and adjust the whole percentage number throughout the year and any time their pays change. Pay amounts don’t change just annually. Several factors can adjust a members pay: promotions, deployments, longevity increases, changes to special pays, and achievement of flight pay “gates” are just a few.

One member wrote that in 2008 he had to adjust his pay-rate percentage three times; once for the annual pay raise, once for promotion, and once for a longevity pay increase.

We believe that providing a “fixed-dollar” amount option would simplify the process for the service member.

Collaborative Education and Rule-Making – As stated before, we believe a thorough education plan will be instrumental to ensure the Roth rollout is implemented most effectively.

Therefore, MOAA recommends that TSP bring affected agencies together, to include federal agencies and military and veteran service organizations, in round-table discussions to assist in developing the rollout education plan and necessary rule-making policies. We feel a collaborative effort will produce a much more comprehensive result.

CONCLUSION

MOAA is grateful to the Subcommittee for its leadership on this issue and for the commitment of both Congress and the Federal Retirement Thrift Investment Board to providing this much-needed savings option for federal employees and uniformed service members.

We look forward to assisting in the upcoming policy making and subsequent rollout.

Biography of Michael F. Hayden, Colonel, USAF (Ret.) Deputy Director, Government Relations

Colonel Mike Hayden, USAF-Ret., joined the MOAA legislative team in July 2005 upon completion of a 25-year military career in air and space operations, personnel, recruiting, training, and education, and adds his wide knowledge and broad experience to MOAA's legislative expertise, focusing on active duty and retiree compensation issues.

Mike spent his last five years on active duty at the Pentagon as chief of the Military Personnel Policy Division, HQ USAF, and as chief, Personnel Services Division for the Joint Chiefs of Staff. As the Military Personnel Policy Division chief, his team developed and implemented the one-year drawdown of over 24,000 airmen. In the latter position, he worked with MOAA in winning Survivor Benefit Plan (SBP) coverage for survivors of service members killed on active duty.

Mike compiled over 2,800 flying hours as a B-52 instructor radar navigator and holds a Bachelor's degree in Economics from Northern Illinois University and a Master's degree in Aeronautical Science from Embry Riddle University.