



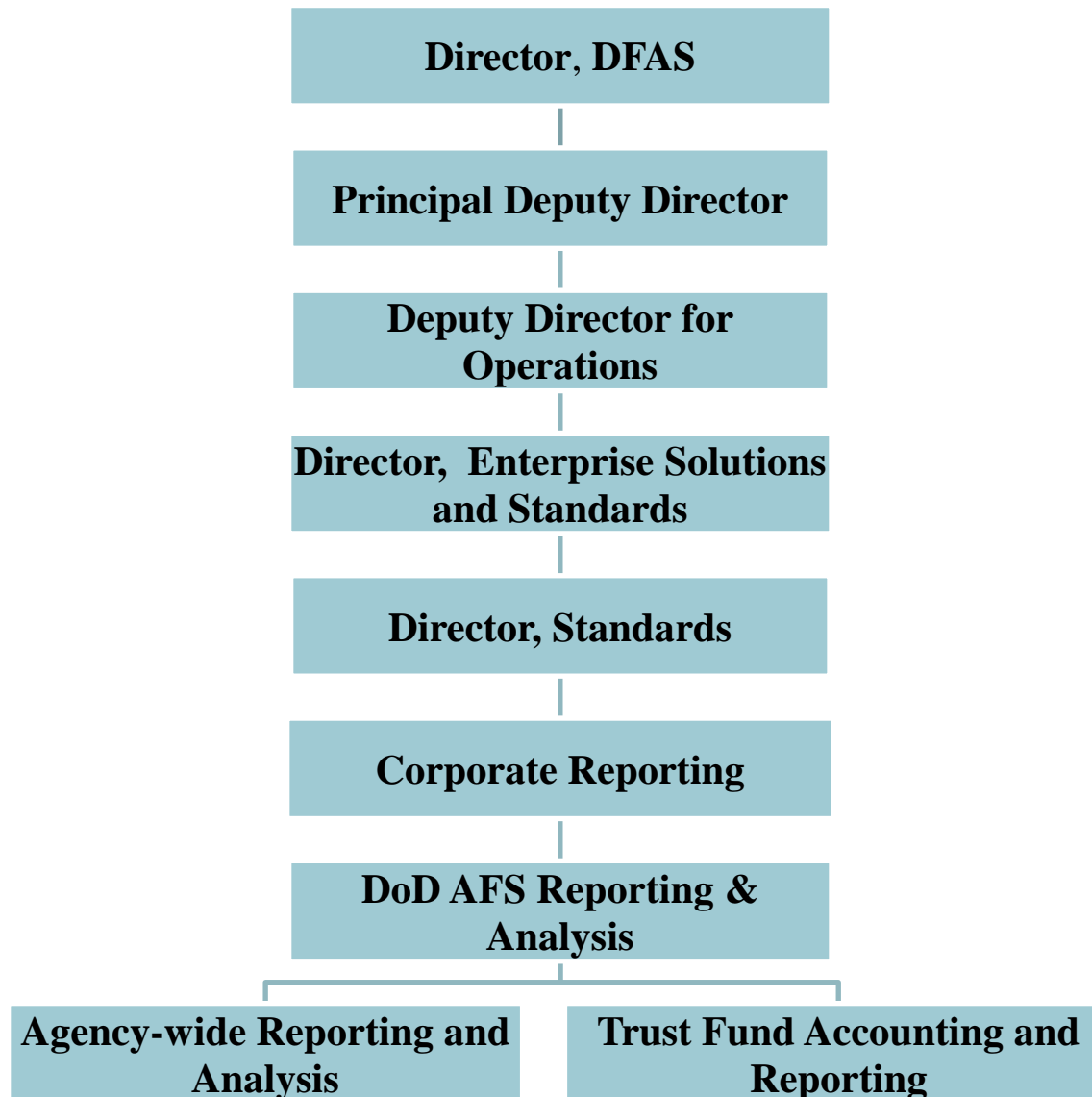
Department of Defense Trust Funds

Elizabeth Ridge

Defense Finance and Accounting Service

- Major Players
 - ✓ Department of Defense Investment Board
 - ✓ Trust Fund Accounting and Reporting
 - ✓ Office of the Actuary
 - ✓ Bureau of the Public Debt
- Initiatives and Accomplishments
- Post-employment Funds
 - ✓ Military Retirement Fund (MRF)
 - ✓ Medicare-Eligible Retiree Health Care Fund (MERHCF)
 - ✓ Voluntary Separation Incentive Fund (VSI)
- Education Fund
 - ✓ Department of Defense Education Benefit Fund (EBF)

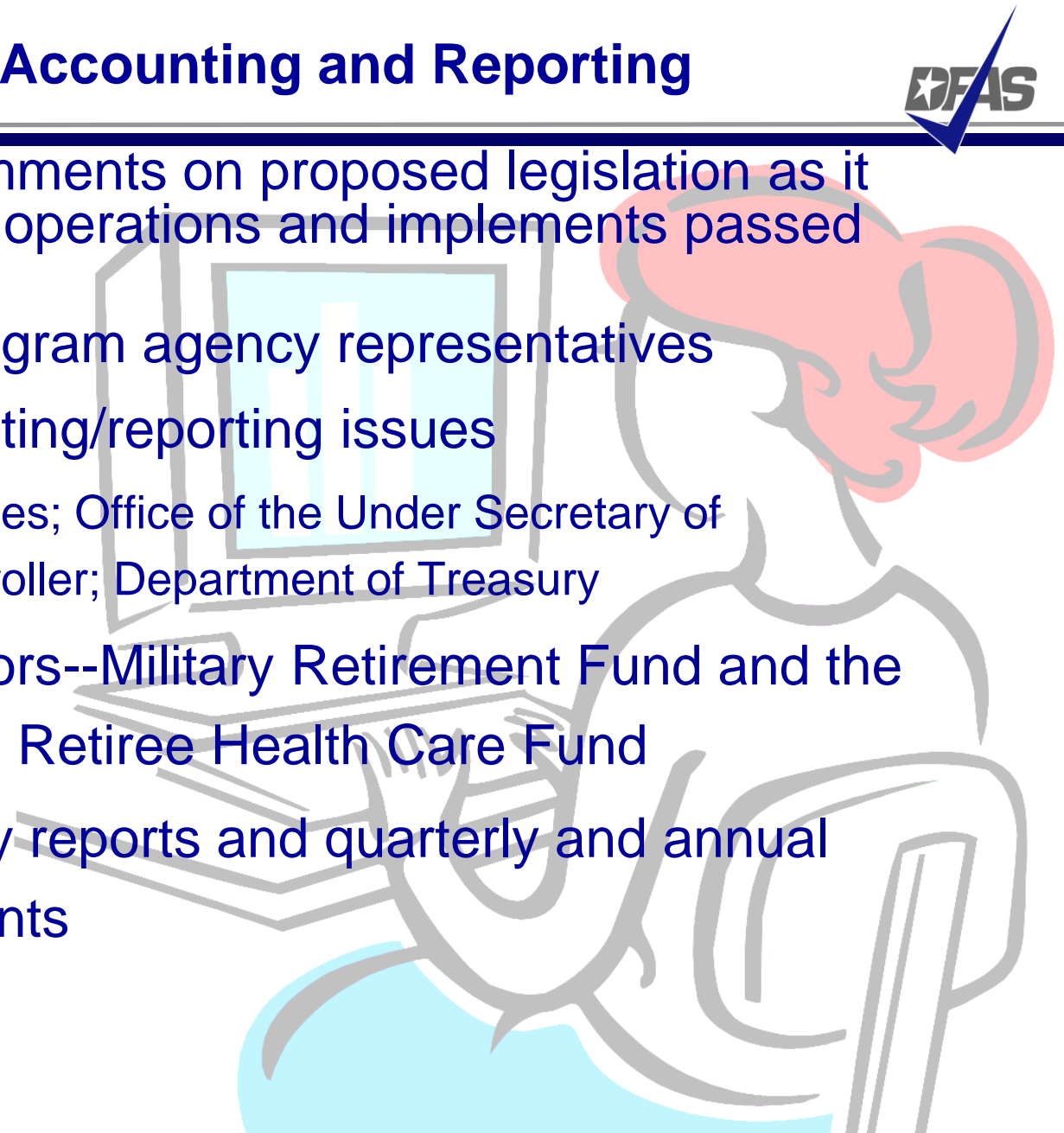
DFAS Trust Fund Accounting and Reporting



DFAS Trust Fund Accounting and Reporting



- Reviews and comments on proposed legislation as it affects trust fund operations and implements passed legislation
- Interacts with program agency representatives
- Resolves accounting/reporting issues
 - ✓ Other DFAS offices; Office of the Under Secretary of Defense, Comptroller; Department of Treasury
- Works with auditors--Military Retirement Fund and the Medicare Eligible Retiree Health Care Fund
- Prepares monthly reports and quarterly and annual financial statements



- Briefs the Boards of Actuaries and the Department of Defense Investment Board on status of the eight trust and special funds
- Prepares cash flow projections to ensure sufficient funds to pay current month benefits
- Records receipts and disbursements for eight funds
- Purchases daily overnight securities for each fund
- Records all investment activity in the accounting system
 - ✓ Purchases
 - ✓ Sales
 - ✓ Maturities
 - ✓ Semi-annual interest



- Established September 2003
- Members
 - ✓ Director, DFAS—Chair
 - ✓ Deputy Chief Financial Officer, Office of the Undersecretary of Defense (Comptroller) (OUSD(C))
 - ✓ Senior military service member appointed by the OUSD(C)
 - ✓ Observer—DoD Inspector General
- Responsibilities
 - ✓ Establish investment policies, objectives, strategies, and performance
 - ✓ Prohibit the active trade of securities

- Provides actuarial expertise on all matters relating to military compensation and benefits
- Performs annual valuations of the military retirement system, education benefits under the Montgomery G. I. Bill, health care for the military retired population, and the Voluntary Separation Incentive Program
 - ✓ Project personnel, pay and benefits
 - ✓ Calculate annual DoD contribution costs
 - ✓ Determine program unfunded liabilities and their amortizations

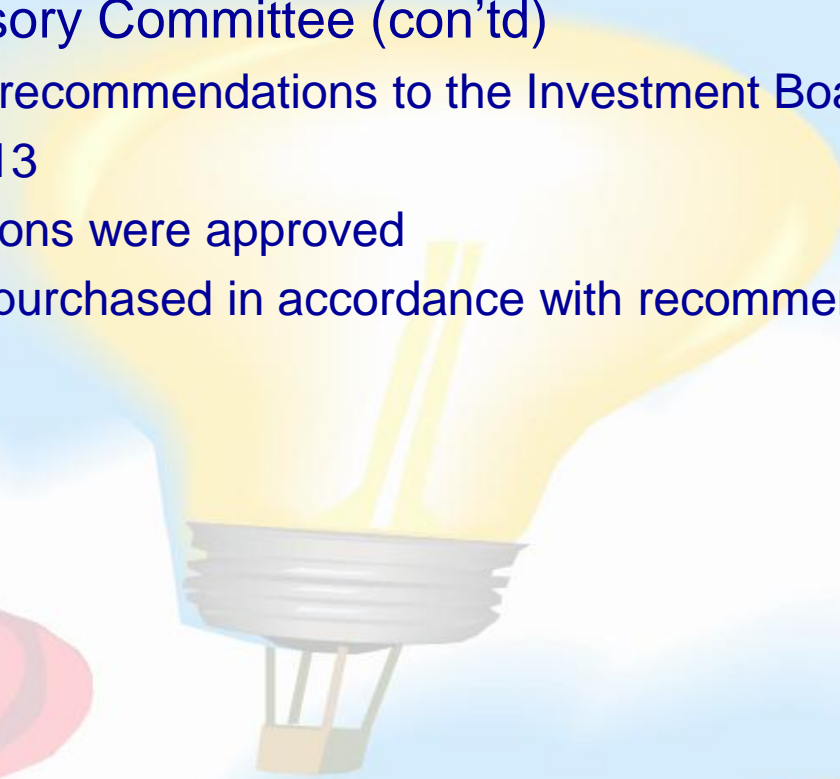
- Issues Nonmarketable Market-Based Securities
 - ✓ One-Day Securities: Overnight maturity purchased at par value
 - ✓ Treasury Bills: Short-term securities purchased at discount
 - ✓ Treasury Notes: Interest-bearing securities with 1-10 year maturity purchased at discount/premium
 - ✓ Treasury Bonds: Interest-bearing securities with maturities greater than 10 years purchased at discount/premium
 - ✓ Treasury Inflation Protected Securities (TIPS): Interest-bearing securities with 5-year, 10-year, 20-year maturity purchased at discount/premium
 - Provide protection against inflation/deflation
 - At maturity receive greater of inflation-adjusted principal or original principal
 - Semi-annual interest rate applied to the adjusted principal—interest payments rise with inflation and fall with deflation

● Initiatives

✓ Investment Advisory Committee

- DFAS worked through the Reserve Personnel Force Integration (PFI) program to announce requirements
 - Civilian investor/investment experience desired (Including experience in Banking, Insurance, Pension funds, and/or Financial Investing).
- Selected highly qualified individuals for serving on the panel--without respect to rank or branch of service; based only on the civilian skills
- Topics for Committee:
 - Review of current investing strategy
 - Investment environment
 - Proposed changes to current strategy
 - Risks in the portfolio
 - Tools to manage investments and cash flows

- ✓ Investment Advisory Committee (con'td)
 - Presented first recommendations to the Investment Board
September 13
 - Recommendations were approved
 - On October 3, purchased in accordance with recommendations



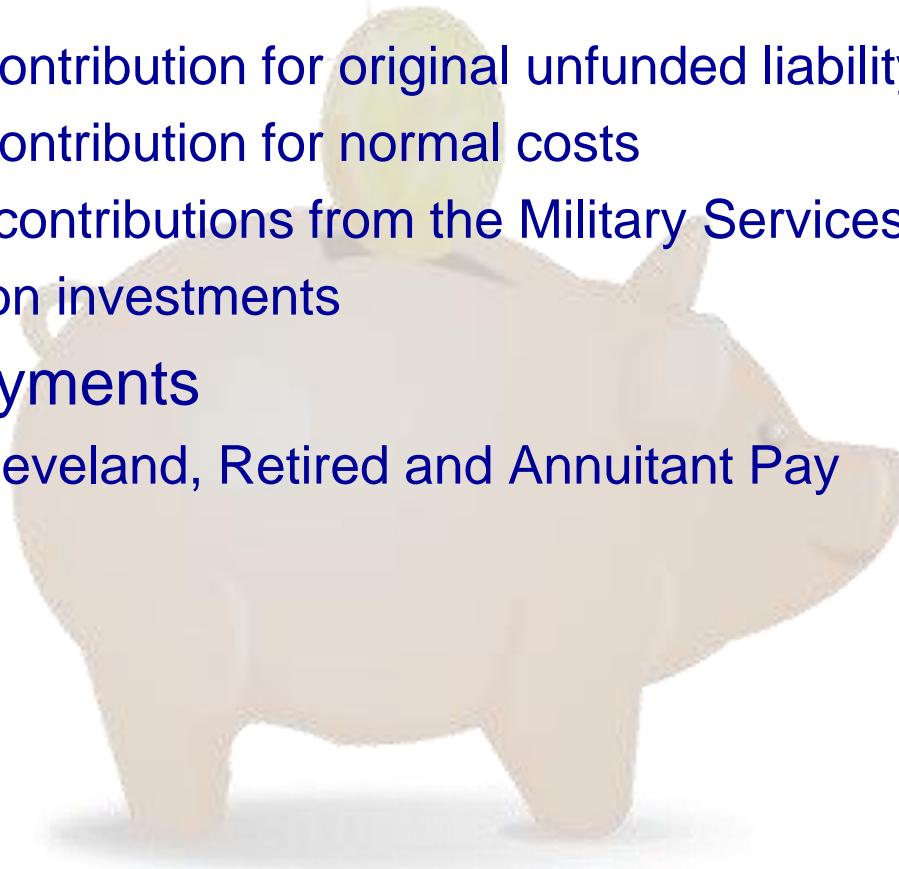
- ✓ Continuity of Operations Plan (COOP)
 - Challenges
 - All of the Department of Defense Trust Funds with investing authority are managed by DFAS Indianapolis
 - Expertise with accounting system and investing all in one place
 - Accounting System is located in Indianapolis
 - ✓ Peer Review—compare notes with State of Indiana pension/trust funds
- Accomplishments
 - ✓ In FY 2009, implemented new accounting system
 - Eliminated overtime
 - Manual preparation of reports
 - Journal vouchers
 - Corrected prior audit finding
 - Maintained previous audit opinions

Military Retirement Fund



- Established as a pension program in FY 1984 by Public Law 98-94(10 USC 1461)
- Pays retired Army, Navy, Marine Corps, and Air Force (Military Services) members and their survivors
 - ✓ Non-disability retired pay
 - ✓ Disability retired pay
 - ✓ Retired pay for reserve service
 - ✓ Survivor annuity programs
- Relies on computations by the Office of the Actuary (OACT) using assumptions approved by the DoD Board of Actuaries
 - ✓ Annuity cost recalculated and presented to Congress as the basis for annual congressional appropriations to the MRF

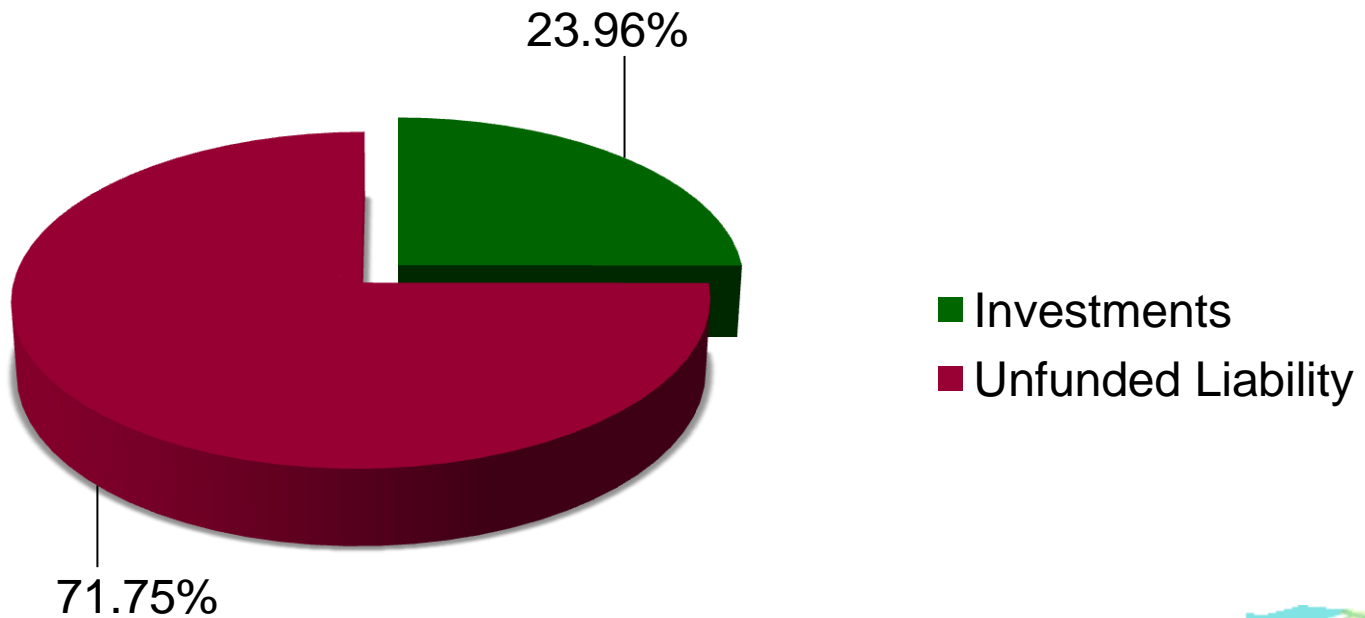
- Funding
 - ✓ Annual contribution for original unfunded liability
 - ✓ Annual contribution for normal costs
 - ✓ Monthly contributions from the Military Services
 - ✓ Interest on investments
- Benefit payments
 - ✓ DFAS-Cleveland, Retired and Annuitant Pay



Military Retirement Fund needs Sep 30 data

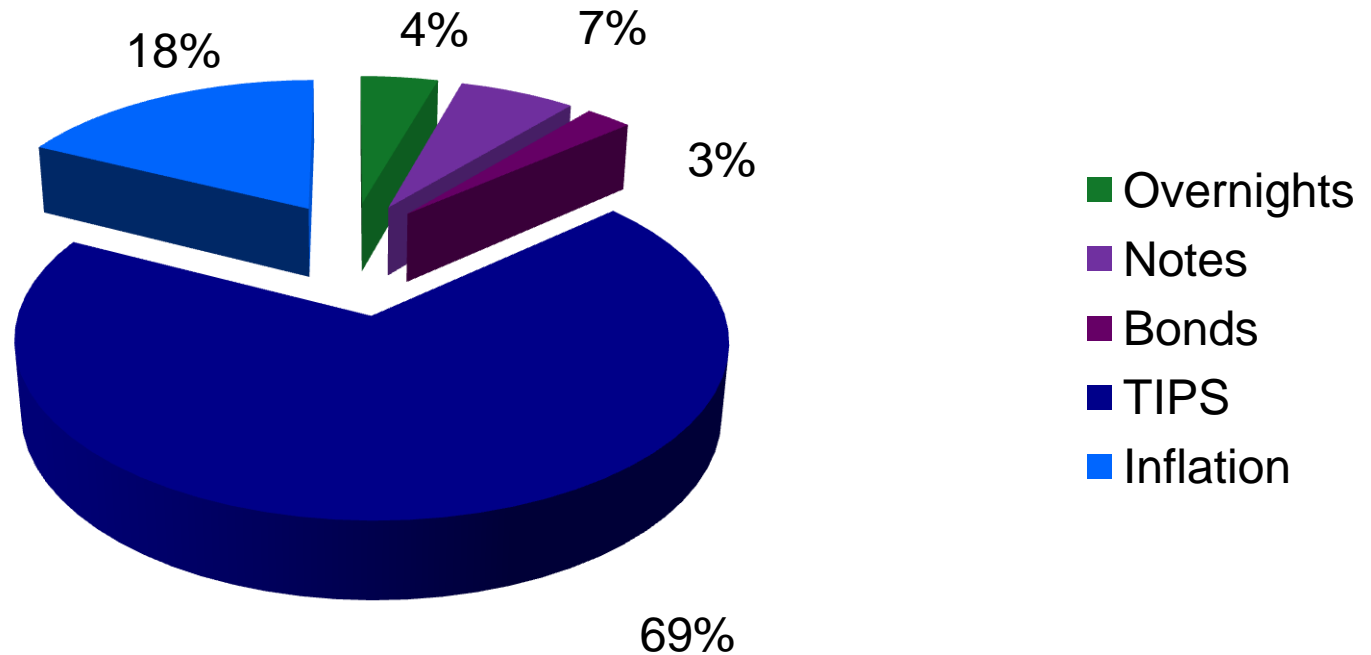


- Actuarial Liability
 - ✓ \$1.36 trillion



- Investments

- ✓ \$326.00 billion



- FY 2011 monthly benefits

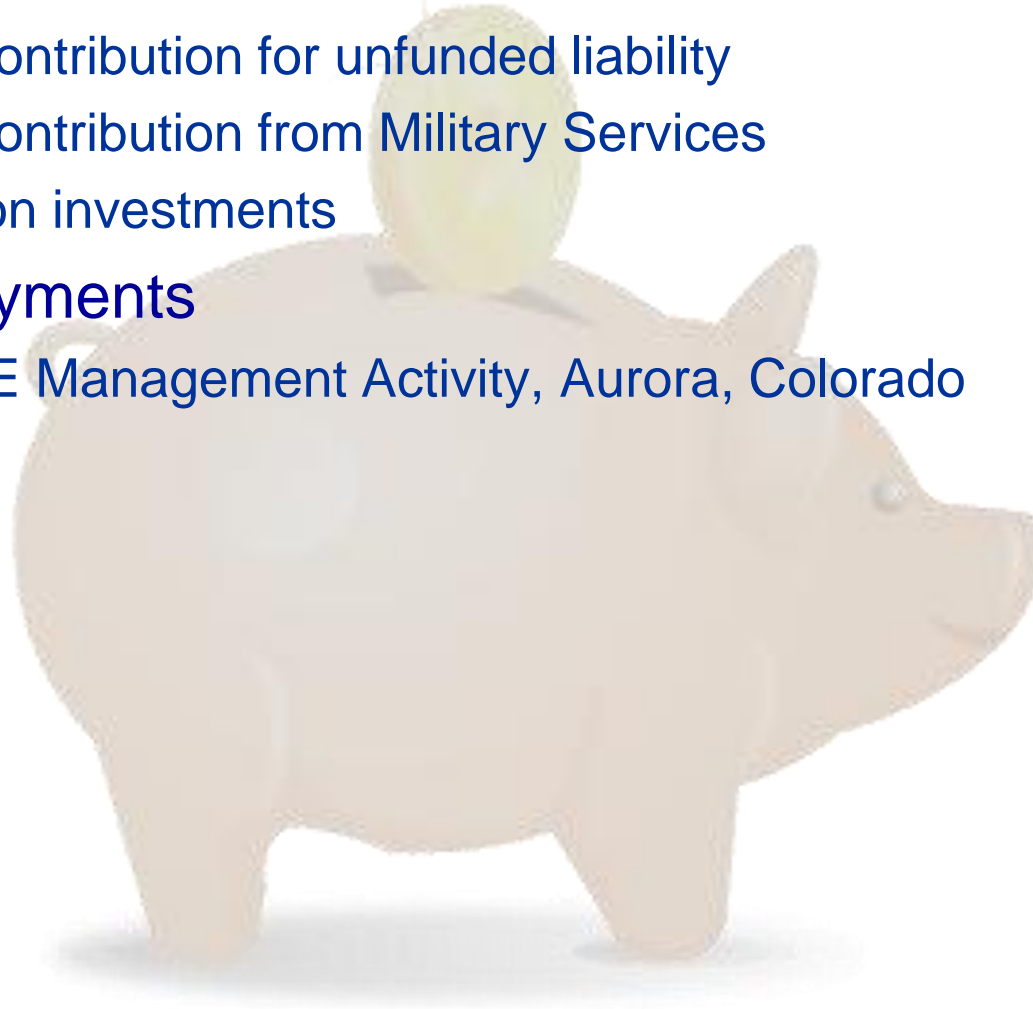
- ✓ \$4.23 billion

Medicare-Eligible Retiree Health Care Fund



- Established by Public Law 106-398, Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, 10 USC 1111
- Provide funds to pay for health benefits for Medicare eligible
 - ✓ DoD military retirees
 - ✓ Retiree family members
 - ✓ Survivors
- Relies on computations by the Office of the Actuary
 - ✓ Computations recalculated annually
 - ✓ Presented to Congress as the basis for annual congressional appropriations to the MERHCF

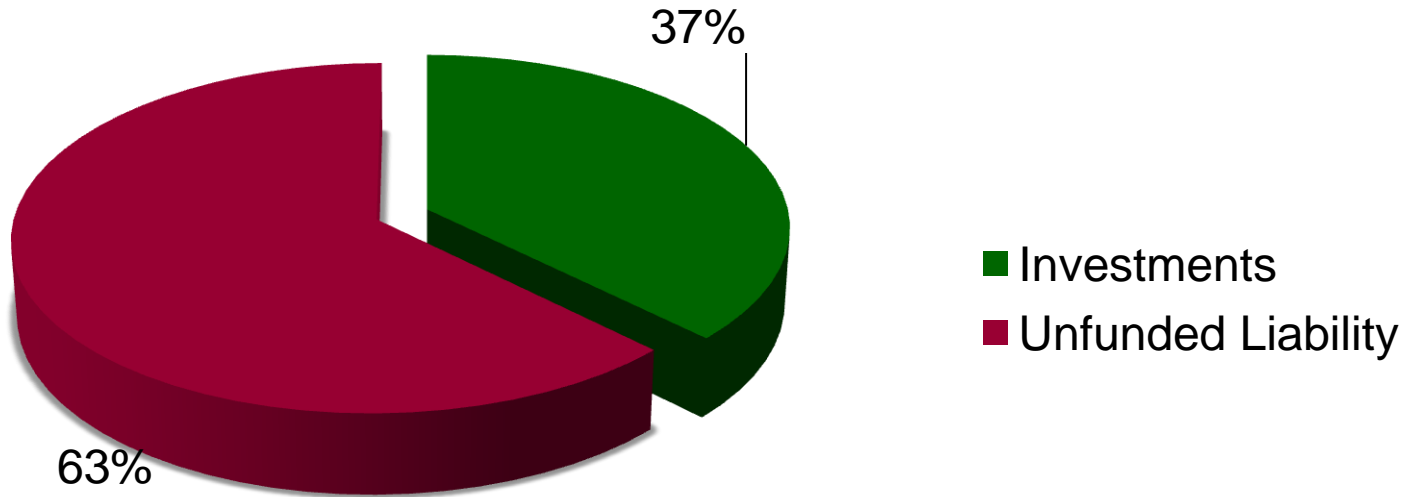
- Funding
 - ✓ Annual contribution for unfunded liability
 - ✓ Annual contribution from Military Services
 - ✓ Interest on investments
- Benefit payments
 - ✓ TRICARE Management Activity, Aurora, Colorado



Medicare-Eligible Retiree Health Care Fund



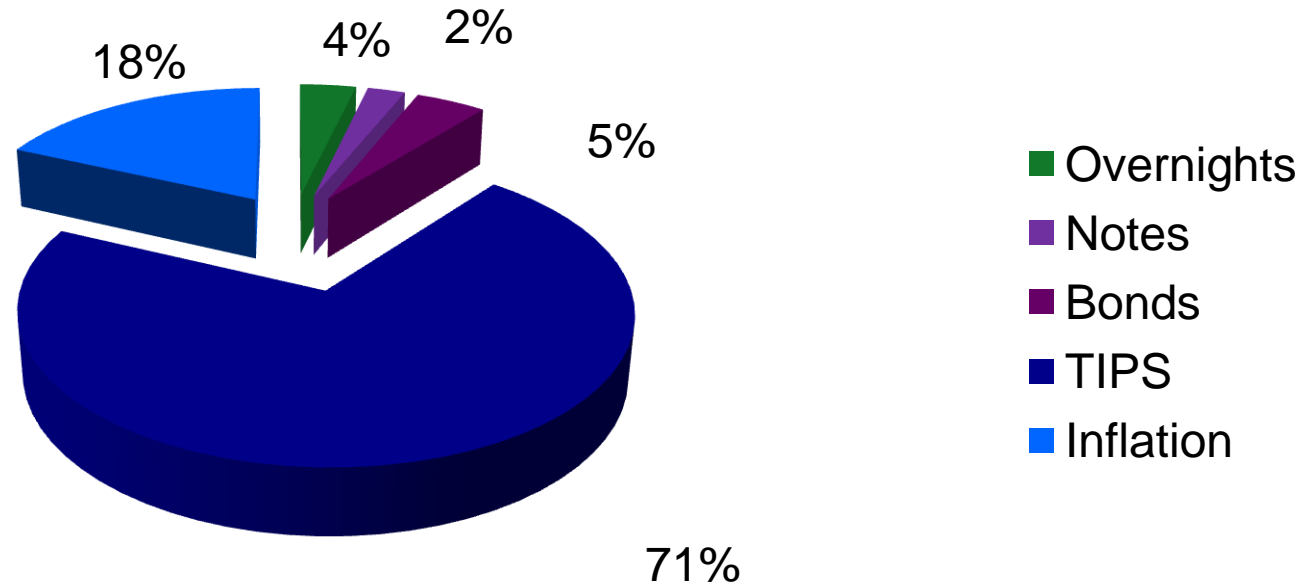
- September 30, 2010 Actuarial Liability
 - ✓ \$533.7 billion



Medicare-Eligible Retiree Health Care Fund



- September 30, 2010 Investments
 - ✓ \$167.7 billion



- FY 2011 monthly benefit payments
 - ✓ \$497.81 million
- FY 2011 quarterly payments to DHP and Military Services
 - ✓ \$448.33 million

Voluntary Separation Incentive Fund

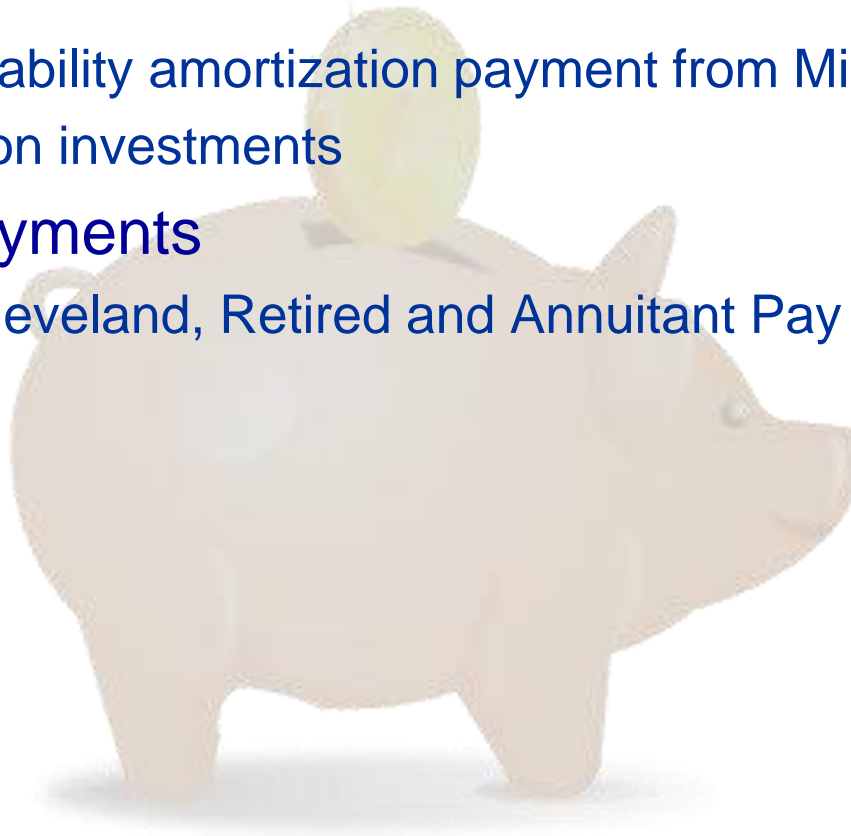


- Established by Public Law 102-190, National Defense Authorization Act for Fiscal Year 1992, 10 USC 1175
- Intended to reduce the number of military personnel on active duty--minimum of 6 years of service/not qualified for retirement
- Spreads payments over a period equivalent to twice the years of active service
- Pays an annual payment on 2.5 % of basic pay at the time member leaves service times number of years of service
- Relies on computations by the Office of the Actuary for contributions from the services
- Ended December 21, 2001, by the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001

Voluntary Separation Incentive Fund



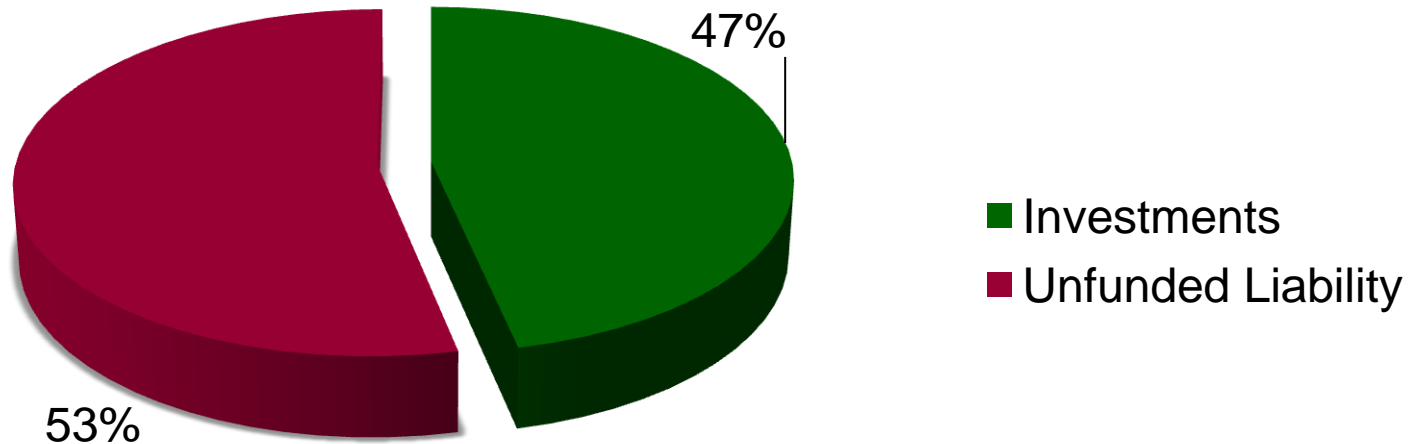
- Funding
 - ✓ Annual liability amortization payment from Military Services
 - ✓ Interest on investments
- Benefit payments
 - ✓ DFAS-Cleveland, Retired and Annuitant Pay



Voluntary Separation Incentive Fund



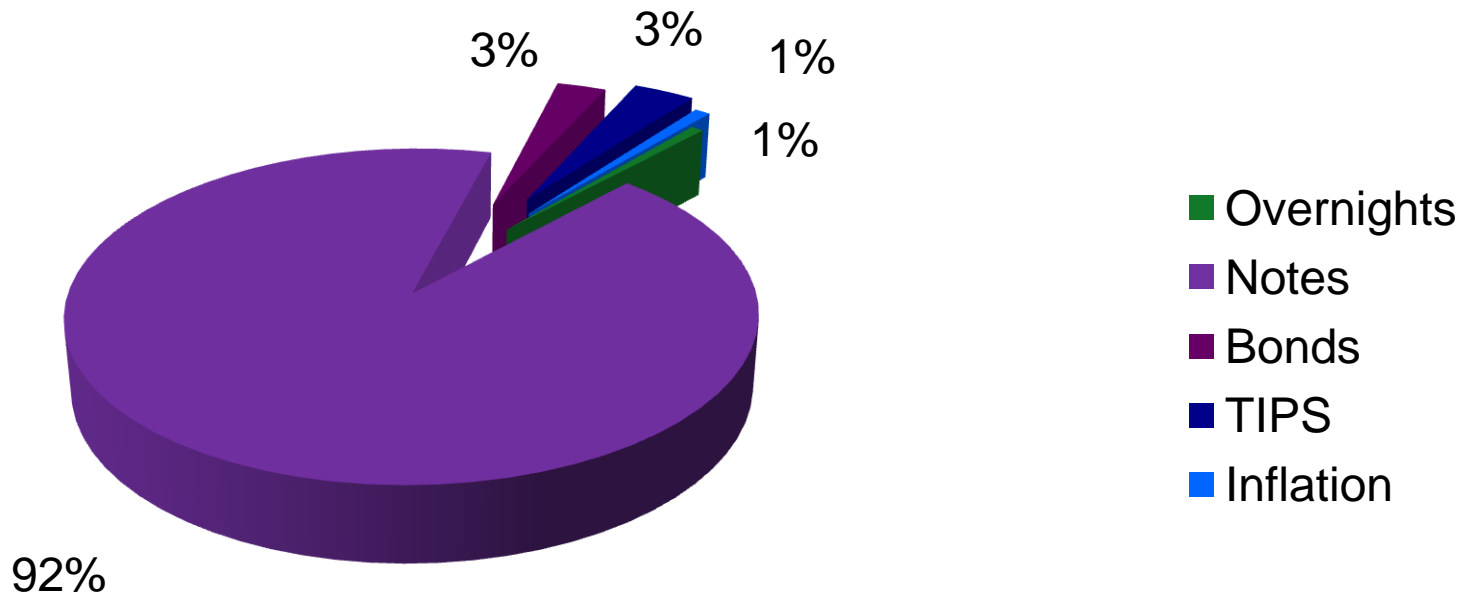
- September 30, 2010 Actuarial Liability
 - ✓ \$770 million



Voluntary Separation Incentive Fund



- September 30, 2010 Investments
 - ✓ \$355 million

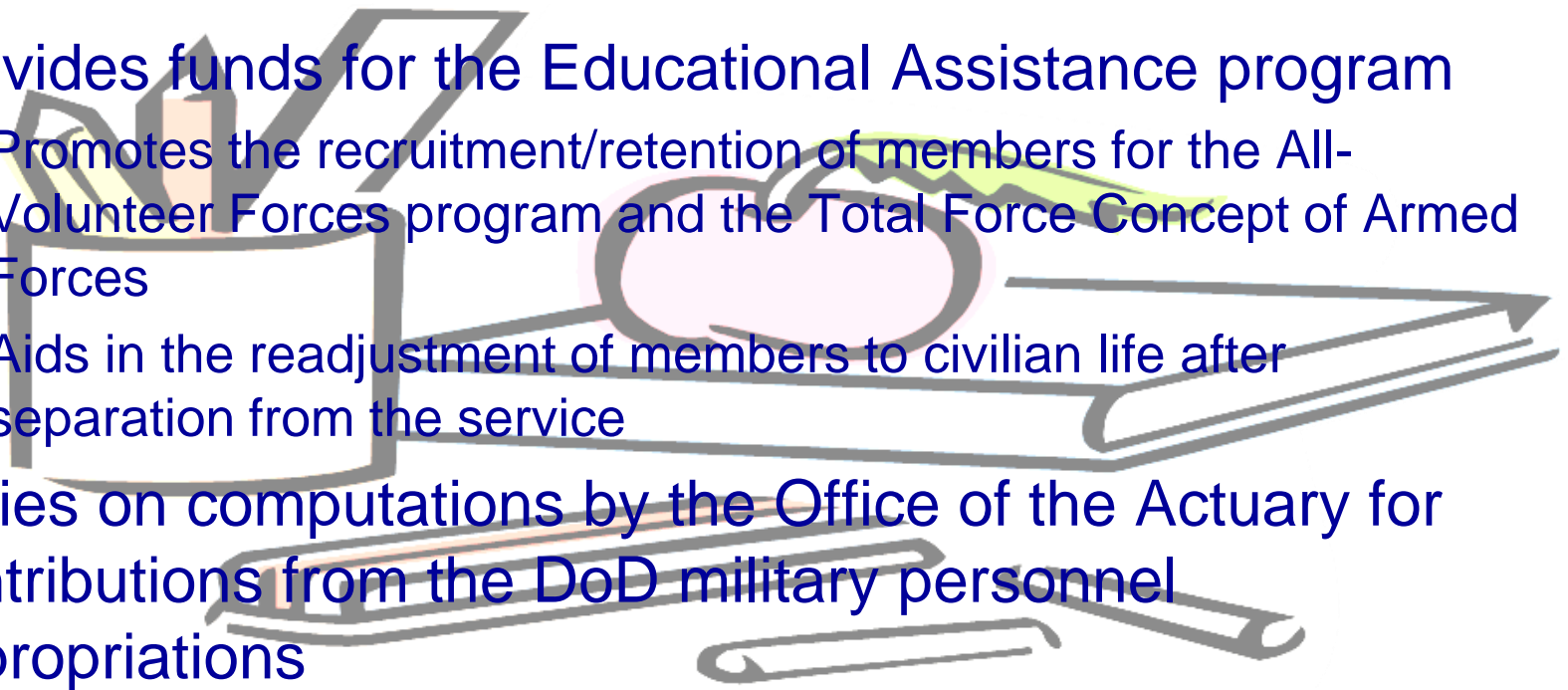


- FY 2011 monthly benefit payments
 - \$7.70 million

Education Benefit Fund



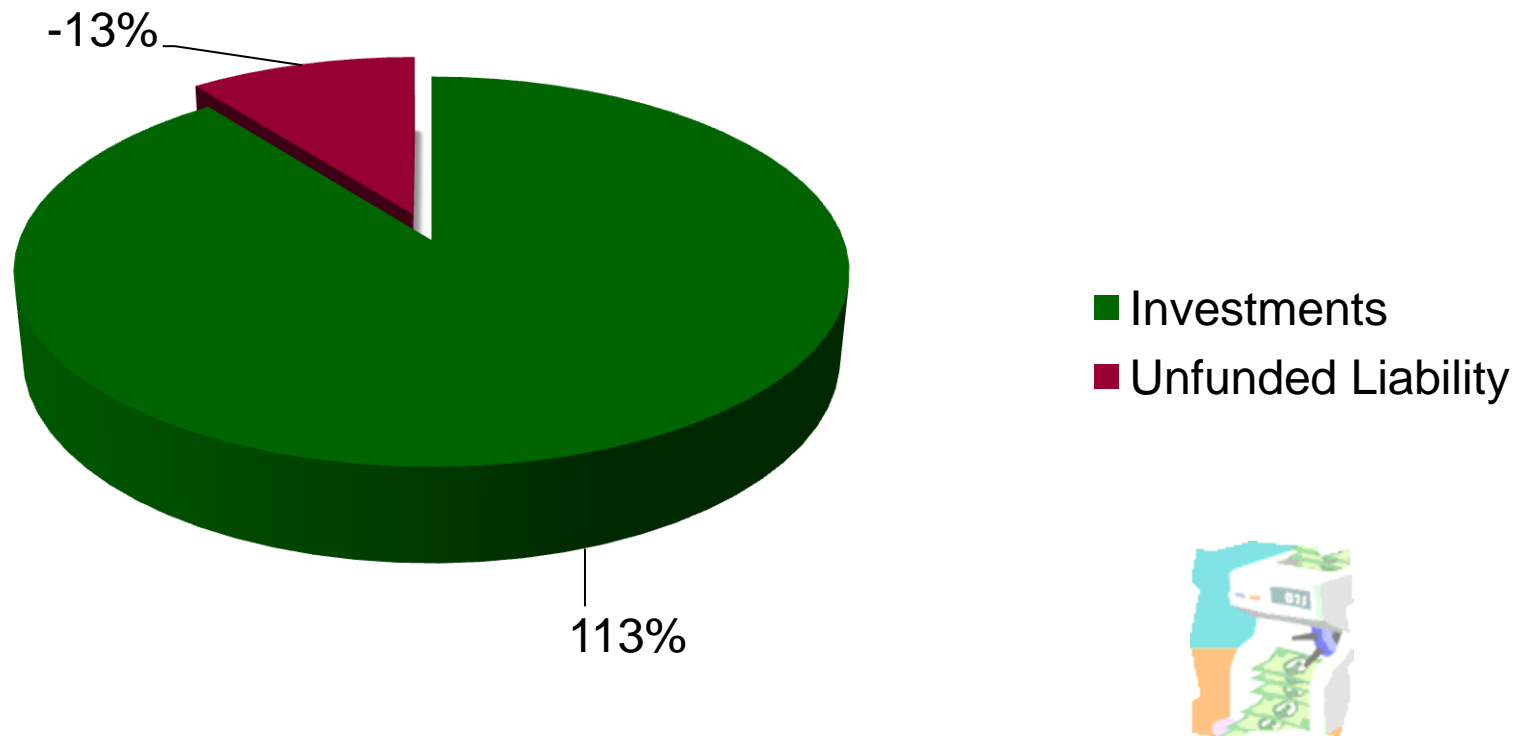
- Established by Public Law 98-525, Department of Defense Authorization Act, 1985 (Montgomery G.I. Bill), 10 USC 2006 and modifications
- Provides funds for the Educational Assistance program
 - ✓ Promotes the recruitment/retention of members for the All-Volunteer Forces program and the Total Force Concept of Armed Forces
 - ✓ Aids in the readjustment of members to civilian life after separation from the service
- Relies on computations by the Office of the Actuary for contributions from the DoD military personnel appropriations



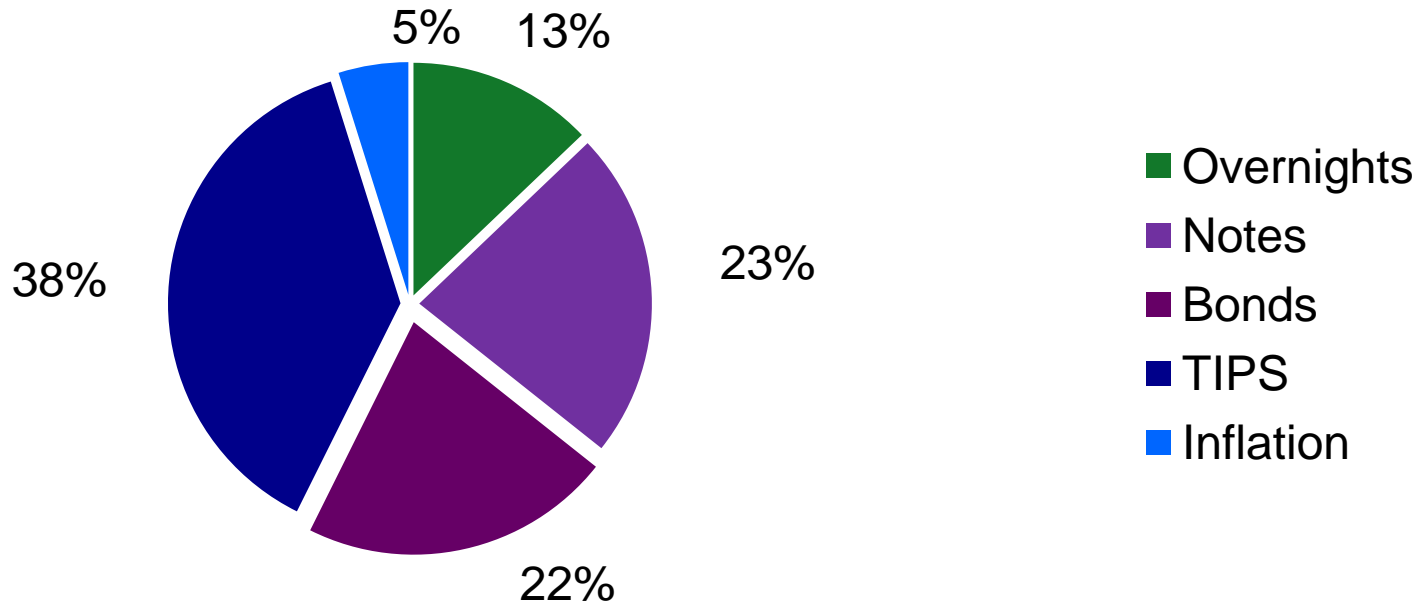
- Funding
 - ✓ Annual amortization payments from Military Services
 - ✓ Monthly contribution from Military Services
 - ✓ Interest on investments
- Benefit payments
 - ✓ Department of Veteran's Affairs



- September 30, 2010 Actuarial Liability
 - ✓ \$1.7 billion



- September 30, 2010 Investments
 - ✓ \$2 billion



- FY 2011 monthly benefit payments
 - ✓ \$39.00 million

